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WORLD NEWS

Germany must learn from US says Schröder

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G8 nuclear 2000 worry
The ability of developing countries to tackle the year 2000 computer problem is worrying leading industrial nations. There is particular concern among officials of the Group of Eight and the European Commission about the poorer countries' nuclear industries. Page 7

Shanghai hoards currencies
Foreign currency deposits held by individuals in Shanghai have risen 13.2 per cent, or $700m, to $5.3bn in the first half of this year, demonstrating concern among Chinese that Beijing may have to devalue the renminbi. Page 16; Currencies, Page 27

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Africa crisis meeting
Southern African leaders are due to discuss the region's deepening crisis tomorrow. As Congolese rebels consolidated their hold on the country's eastern region, diplomats also expressed concern about Angola. Page 4

German-Czech reconciliation bid
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Immigrants besiege southern Italy
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China eyes 2008 Olympics
Chinese sports minister Wu Shaozu would support a bid for the 2008 Olympics if a domestic candidate city can be found, a Chinese newspaper reported.

Albanian power supplies down
Albanians are being forced to reduce their energy consumption by 23 per cent after fire damaged the main power plant.

Japanese cabinet backs bank plan
The Japanese cabinet approved plans to create a "bridge bank" to tackle the country's financial problems. Page 3

Passengers hurt at Seoul airport
Eight passengers were injured, one seriously, when a Korean Air 747 skidded off a runway at Seoul's Kimpo airport.

Computer illiterates
More than half of teachers in Japan's public schools can not operate a computer, says an education ministry survey.

Contact with space probe
Scientists have re-established radio contact with the lost $990m Soho Sun probe.

BUSINESS NEWS

Telefónica chief defends price paid for Telebrás stakes

Telefónica chairman Juan Villalonga brushed aside reservations over the high price the Spanish telecoms operator paid for parts of Brazil's privatised Telebrás network, saying he intended to increase the group's stakes in the newly-acquired carriers. Page 17

Cathay Pacific, Hong Kong-based airline, recorded a HK$175m ($22.6m) first half loss, its first fall into the red for more than 20 years, and warned of another tough period ahead. Page 17; Carriers plan alliance, Page 22

Daimler-Benz of Germany and Chrysler of the US plan to issue "registered ordinary shares", a new type of internationally traded stock, to effect their $40bn merger. Page 20

General Motors chairman Jack Smith launched an aggressive defence of the company's restructuring process. Page 20

Aetna shares rose sharply as second-quarter results from the largest US health insurer reassured the market after the company's troubled integration of US Healthcare. Page 17

AssiDomän shares fell more than 6 per cent after the Swedish forestry products group warned that Asia's crisis and overcapacity in North America could exacerbate pricing pressures. Page 17; Commodities, Page 28

Skandia, Sweden's largest insurer, announced flat first-half pre-tax profits of SKr3.18bn ($401m) in spite of sharply increased long-term savings and strong growth in assets under management. Page 18

Den norske Bank, Norwegian financial services group, reported slightly lower first-half net profits of NKr1.169bn ($154m) because of heavy losses on shipping business and pressure on interest rates. Page 18

Hoogovens, Dutch steel and aluminium maker, doubled first-half earnings to Fl 386m ($192m), helped by healthy European demand. Page 18

Gambro, Swedish medical technology group, announced an 11 per cent increase in underlying first-half profits to SKr901m ($113m). Page 18

Banco Central Hispano, Spanish banking group, broke off negotiations to build a large stake in listed conglomerate Fomento de Construcciones y Contratas. Page 18

Inmet Mining, Canadian metals group, said it would buy back up to 65m of its common shares in an effort to fend off a leveraged buy-out bid by Zemex, a Canadian minerals company. Page 20

Thailand's central bank offered a five-year money-back guarantee to foreign investors who take majority stakes in Thai financial institutions, in an attempt to attract foreign capital. Page 16

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Euro Prices
A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets. Page 25

Early Wall Street rally loses steam

World markets wobble on volatile trading in New York ■ Analysts see market dip as correction

By Philip Coggan in London and John Authers in New York

Wall Street put in a volatile performance in early trading yesterday as the rest of the world's markets wobbled in reaction to Tuesday's 300-point fall in the Dow Jones Industrial Average.

By early afternoon in New York, a rally in the Dow had petered out, leaving the 30 stock average 15.45 points down at 8,471.86.

In the morning, the Dow had traded 70 points either side of its opening level.

European markets had quickly dropped 2-3 per cent in reaction to Wall Street's big fall on Tuesday, and spent much of the day in thrall to the Dow's volatility. With the US market appearing to settle on the upside by late morning, European bourses finished well off their worst.

In London, the FTSE 100 index closed down 103.6 points, or 1.8 per cent, at 5,632.5, having been 164.7 points off at one point. Despite the late recovery, that represented its worst finish since February 16. The Frankfurt and Paris markets both ended around 1.8 per cent lower.

Asian markets were generally lower, but losses were limited as investors took heart from a rebound in the yen to the Y144 level.

The recent weakness of the yen had revived fears that the Chinese and Hong Kong currencies would come under pressure to devalue in response.

The US stock market's retreat on Tuesday came as investors became concerned about the threat to corporate earnings growth posed by the Asian crisis, the strong dollar and rising employment costs. Second quarter earnings growth was just 2.7 per cent but analysts are still expecting 18.7 per cent for the fourth quarter.

Alan Greenspan, the Federal Reserve chairman, recently warned that Wall Street needed to "adjust to a less optimistic view of earnings prospects".

Tuesday's fall had left the Dow more than 9 per cent down from its all-time high, recorded in July, and followed a long period in which the blue chip stocks had defied the weakness of the broader market. The Russell 2000 index of smaller stocks dropped to a 12-month low.

But several large Wall Street securities houses predicted the market would resume its gains, effectively implying that Tuesday's sell-off was merely a correction. These included Paine Webber, which is predicting 1,450 for the S&P 500 by the end of the year, and Lehman Brothers, which is predicting 1,250.

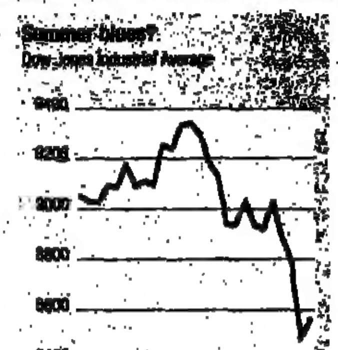
Goldman Sachs' Abby Joseph Cohen, arguably the most influential equity analyst on Wall Street, also repeated her prediction of 1,150 for the S&P 500 by the year-end and 1,250 within 12 months – with the Dow at 9,300 by the year-end – saying that the market correction had already gone far enough.

Analysts who call the dip of the last few weeks a "correction" rather than a crash point to the encouraging economic outlook, with low inflation and bond yields providing a strong support for equity valuations.

There were also signs that retail investors were continuing to show their enthusiasm for "buying on the dips" with mutual fund giant Vanguard reporting net inflows of cash on Tuesday.

Since 1990, previous Wall Street declines have quickly been reversed as individual investors have seen such setbacks as a buying opportunity.

Arthur the lion helped mark the listing of Anglogold, the world's largest gold producer, on the New York Stock Exchange yesterday. South African miners' union leader James Motlatsi, left, Anglogold chairman Bobby Godsell and NYSE chairman Richard Grasso kept their distance. Report, Page 22. AP



Saddam freezes co-operation with UN team

By Roula Khalaf in London and Laura Silber at the UN in New York

President Saddam Hussein of Iraq yesterday announced a freeze on co-operation with United Nations weapons inspectors, raising the stakes in his confrontation with the UN.

The decision, announced on national television, bars inspections of suspected weapons sites but does not prevent the UN inspectors monitoring activities through cameras and sensors installed in various Iraqi plants and research laboratories.

Mr Saddam's decision follows the break-up of talks in Baghdad on Tuesday between Iraqi officials and Richard Butler, the chief weapons inspector, on an extended work programme to speed up inspections.

Mr Saddam laid out several conditions for resuming inspections, including vague demands for a revamping of Unscom, the UN special commission charged with eliminating Iraq's weapons of mass destruction, and the establishment of a new executive bureau to direct Unscom's activities. He also wants Iraq to be present in the bureau as an observer and Unscom to move its headquarters from New York to Geneva or Vienna. Mr Saddam's decision followed a unanimous vote in the Iraqi parliament to freeze inspections as a protest against sanctions. It takes the confrontation with the UN to a new level, as Iraq is bound by UN obligations to allow inspectors unimpeded access.

Iraq claimed this week that, after two months of promised acceleration in the work of inspectors, it had become clear that they had no intention of completing their task rapidly and were deliberately aiming to prolong sanctions.

P.J.Crowley, White House spokesman, said the decision to end co-operation with weapons inspectors was a "clear violation" of the February agreement between Mr Saddam and Kofi Annan, UN secretary general. Asked if the US were considering military buildup, Mr Crowley warned against "raising the temperature".

Earlier, at the UN security council in New York, diplomats called for a "measured response" to Iraq, apparently hoping to avoid a confrontation.

Mr Butler, who travelled to New York yesterday to meet Kofi Annan, the UN secretary-general, also tried to play down the seriousness of the latest stand-off. He said he had told Mr Annan he did not think the collapse of talks with Baghdad should be described as a crisis. Mr Butler is expected to brief the security council today.

Although Unscom believes it might be close to being able to declare Iraq free of long-range ballistic missiles and chemical weapons, Mr Butler stressed that much work needed to be done on biological weapons.

The renewed tension has caused oil prices to firm for the past two days.

Saddam puts council to the test, Page 4; Editorial Comment, Page 15; Commodities, Page 28

SGS troubles force Salina to step aside

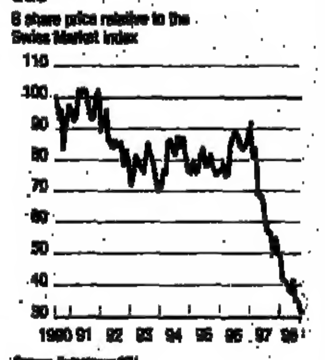
By William Hall in Zurich

Elisabeth Salina Amorini, Switzerland's best-known business woman, has given up operational control of Société Générale de Surveillance, the world's biggest inspection and testing company, after the latest in a series of profit warnings.

Mrs Salina, who held both the chairman and chief executive positions, has been under increasing pressure to introduce a more balanced management structure after the company ran into problems last year. SGS lost two of its biggest inspection contracts and one of its subsidiaries was named in a Pakistani corruption scandal.

Antony Czura, a Briton who heads the group's natural resources and industrial and consumer services businesses, has been appointed chief executive with immediate effect and been given the task of reviewing cost structures, commercial strategy and organisation.

SGS denied that Mrs Salina's removal from day-to-day management – she remains chairman – was a response to outside shareholder pressure. SGS's share price has fallen by 30 per cent since the end of 1996 during a period when the Swiss stock market has doubled and investors have questioned whether the group's collegial management structure was suited to deal with its current problems.



SGS shares fell more than 8 per cent, to SFr2,307 yesterday after the company warned that operating results had been "particularly weak" in May and June and there would be a "substantial overall decline" in the first half of 1998. In addition to the loss of the Pakistan and Indonesian inspection contracts, SGS blamed the severe crisis in Asia and deterioration in trading conditions in the oil and mineral markets.

SGS's last chief executive resigned in 1994 and the company has been managed by an executive committee of which Mrs Salina was president. Mrs Salina took over as chairman in 1989 after a family shareholder revolt ousted the previous management.

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WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8532.62	(+45.31)
NASDAQ Composite	1797.91	(+12.27)
Europe and Far East		
CAC40	3976.40	(-71.48)
DAX	5632.51	(-123.69)
FTSE 100	5632.5	(-103.6)
Nikkei	15,992.16	(-31.42)
US LUNCHTIME RATES		
Federal Funds	5.43%	
3-mth Treas Bills: Yld	5.093%	
Long Bond	105⅝	
Yield	5.675%	
OTHER RATES		
UK: 3-mo Interbank	7⅞%	(7⅞%)
UK: 10 yr Gilt	110.9844	(111.187)
France: 10 yr OAT	104.22	(104.20)
Germany: 10 yr Bund	104.68	(104.73)
Japan: 10 yr JGB	111.61	(111.66)
NORTH SEA OIL (Argus)		
Brent Dated	$12.23½	(11.95)

GOLD		
New York Comex		
	$288.2	(288.8)
London		
	$287.45	(288.85)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6357	
DM	1.77125	
FFr	5.9385	
SFr	1.49	
Y	144.22	
London		
£	1.6365	(1.6331)
DM	1.7719	(1.7832)
FFr	5.9405	(5.9786)
SFr	1.4903	(1.4995)
Y	144.21	(145.075)
Tokyo Close		Y 143.8
Sterling		
DM	2.8996	(2.9122)

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WORLD NEWS
EUROPE

Schröder: Germany must learn from US

By Richard Wolffe in Washington

Gerhard Schröder, the Social Democratic challenger to Chancellor Helmut Kohl in Germany's elections next month, called yesterday for structural reforms of the German economy to bring its performance more into line with that of the US.

Speaking at the start of a Washington tour which included meetings with President Bill Clinton and Alan Greenspan, chairman of the Federal Reserve, Mr Schröder said Germany needed to learn from US policies about how to lower unemployment.

To narrow the gap between the two economies, he pledged to improve flexibility in German labour markets and to cultivate more of a service culture in Germany to lift its economic performance.

"If you look at the facts and figures, you would see that in Germany we need 2.5 per cent growth to fight unemployment," he said. "In the US you only need 1 per cent to get into a better situation. That is an imbalance within the two systems in comparison that I think we need to fight.

"We have to become faster in implementing technical innovations, thoughts and inventions, and turn them into marketable products. The time it takes in Germany to move from the first thought to the marketing of the product just takes too long."

In a speech at Georgetown University, Mr Schröder later urged the US to engage in greater economic co-operation with Europe after the introduction of the euro. He said Washington and Brussels would need in future to play a joint role in dealing with international events such as Asia's financial crisis, and would need to ensure the stability of the dollar-euro exchange rate.

However, Mr Schröder reassured his US audience that a Social Democratic government in Bonn would not upset the Atlantic alliance. At a press conference, he said: "If you look into the differences between the political parties, as to foreign policies, then I think the differences in this field are minimal.

"The same applies to US-German relations. I think there will be hardly any noticeable difference in the stance that we should take. There will be more stability and more continuity."

Mr Schröder said later his aim was "to strengthen the Atlantic alliance, to increase its cohesion and its capability of projecting stability outwards". At the same time, he called for greater co-operation with Russia to reassure the Russian government that Nato expansion posed no threat to the country.

Germans, Czechs cool dispute

By Ralph Atkins in Bonn

Germany and the Czech Republic sought to limit the damage to their relations yesterday after Chancellor Helmut Kohl launched an unusually strong attack on Milos Zeman, the new Czech prime minister.

The row broke out after Mr Zeman criticised the inclusion of Sudeten Germans, ethnic Germans who were expelled from their homes in the Czech lands after the second world war, on the council of a new German-Czech discussion forum.

Mr Kohl vowed in a subsequent television interview to warn Mr Zeman at their next meeting that, when he insulted people who had suffered so much, "he can't expect that we will be good neighbours".

The conservative Bavarian Christian Social Union (CSU), part of Mr Kohl's coalition government, called for Czech entry into the European Union to be linked to the settlement of issues relating to the Sudeten Germans. Many Sudeten Germans settled in Bavaria, near the Czech border. The CSU, which draws strong support from the 1m Sudeten Germans and their descendants, faces state elections in Bavaria on September 13, two weeks before Germany's general election.

In a statement yesterday, the Czech foreign ministry said it regretted that the debate had focused on points "which can be used in the election campaigning". To preserve relations between the two countries, it would not respond to Mr Kohl's remarks.

Similarly, Germany's foreign minister, Klaus Kinkel, who belongs to the centrist Free Democrat party and is increasingly at odds with the CSU, called for "restraint and moderation". He said he agreed that Mr Zeman's comments were "absolutely unacceptable", but added that a single "unlucky remark can't be allowed to throw a shadow over German-Czech relations".

The German-Czech discussion forum was set up under a joint declaration agreed in January 1997.

Mr Zeman said his country had refrained from nominating Communists or rightwing extremists who opposed the declaration to the forum's 40-strong advisory council. Germany should have been similarly cautious about nominating Sudeten Germans.

However, the CSU objected to Sudeten Germans being compared with extremists. Mr Kohl said that "it was incomprehensible how a head of government can use such an absurd and wholly unacceptable formulation".

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ILLEGAL IMMIGRANTS POLITICAL PROBLEMS ARE GROWING IN FRANCE AND ITALY

Paris protest in Vatican nuncio's office

By Robert Graham in Paris

A five-day-old occupation of the offices of the papal nuncio in Paris has drawn attention to the plight of more than 70,000 immigrants whose work and residence permits the French authorities have refused to put into order under a recent amnesty.

All those denied permits face deportation, and the occupation is the latest in a series of protests designed to head this off. Although the protesters have previously occupied church buildings, this is the first time they have moved into premises covered by diplomatic immunity.

Four people without papers and five sympathisers were still refusing yesterday to leave the nunciature despite requests from the Vatican to end their illegal sit-in.

They were demanding government guarantees of proper permits to stay in France for themselves and the rest of the 200-odd people who started the protest movement against the prospect of deportation in summer 1996.

When it took office in June last year, France's Socialist-led government promised it would give a more human face to the tightening of immigration laws carried out in the early 1990s under previous rightwing administrations.

All those lacking proper papers last autumn were encouraged to apply to have them put in order, while new immigration laws were approved in May devoting special attention to easing family reunions.

Of the original 179,000 dossiers submitted, about 33,000 were immediately rejected. Two months ago the interior ministry revealed that just over 40 per cent of the remainder had been refused.

Some are now being allowed to appeal. But the bulk of those refused will have to be repatriated, mostly by air, in an operation that has yet to begin on any scale.

Last month Charles Pasqua, the senior Gaullist politician and interior minister in the previous government, responsible for initiating France's tougher line on illegal immigration, called for all those without proper papers to be accepted – except for those responsible for crimes.

This, coupled with repeated similar calls from intellectuals on the left, has increased the pressure on the government to change its mind on the issue.


Police watch as illegal immigrants from North Africa queue for food in Sicily this week AP

Sicilians under pressure

By Paul Betts in Milan

Italy's centre-left government is coming under fire from southern politicians over its handling of an unrelenting flood of illegal immigrants from North Africa and the Balkans.

Leoluca Orlando, Palermo's mayor, said he had written to the Pope and to President Oscar Luigi Scalfaro to intervene in what he described as a national disgrace.

He accused the government of adopting "an inhuman legal" approach to the problem. His statements reflected mounting tensions in Sicily and other southern regions, where rioting in special detention camps recently led to the death of an immigrant gang-leader.

Local politicians have called for other European countries to assume responsibilities in the face of the crisis, which they argue is European in scope.

"We are not the new border between north and south, and Sicily won't become a new Brandenburg Gate," Mr Orlando said.

Southern regions are also worried about the impact of the crisis on their summer tourist business.

The government is seeking to negotiate an agreement with Tunisia to repatriate Tunisian immigrants. Italy has already negotiated repatriation agreements with Morocco and Albania.

Lamberto Dini, the foreign minister, held talks in Rome yesterday with his Tunisian counterpart, Said Ben Moustafa, to secure Tunisian agreement for repatriation. The issue has been complicated by Tunisian requests for financial aid from Italy.

The Italian authorities have also been frustrated in their efforts for quick repatriation of illegal immigrants by technical and logistical difficulties. A group of 90 Moroccan immigrants have been waiting for a week in Sicily to be repatriated.

No hiding place as villagers flee Serbian advance

Guy Dinmore in Vrbovc hears reports of gas attacks and mass graves as more refugees flee the Kosovo fighting

Blonde and curly-haired, wearing a *101 Dalmatians* T-shirt, little Zemrije stood wailing in a clearing by a muddy creek. Around her were camped hundreds of ethnic Albanian refugees who had fled on tractors and trailers from the latest government offensive against separatist rebels in Serbia's province of Kosovo.

Saebahade Ahmede scooped up her one-year-old daughter and described their harrowing three-day journey to the valley of Vrbovc, fleeing from one village to another as Serbian forces pressed their attack in the central Drenica region.

"They burned our houses and fields. They killed the cows. Four people were wounded going to the mill with the wheat," she lamented. "We've no food for this winter. What was not harvested, they burned."

With glazed expressions of exhausted bewilderment, the refugees struggled to find shade from the intense summer sun under makeshift shelters of blankets and leafy branches cut from surrounding forests.

Several fighters of the pro-independence Kosovo Liberation Army (KLA), still in camouflage fatigues, organised the distribution of a few aid parcels left by relief workers of the International Red Cross (ICRC).

More than a dozen villages in the Drenica area have been totally or partially destroyed by artillery bombardments, followed by police using cans of petrol to burn farms and fields of crops just ready to be harvested. Similar scenes have been repeated south of Drenica.

The UN refugee agency estimates that 70,000 people have been put to flight over the past week and that 200,000 civilians one-tenth of the province's total population have been displaced in the five-month conflict. Aid workers say a humanitarian catastrophe is unfolding and the risk of epidemics, such as cholera, is high.

At a rebel checkpoint a KLA fighter and paramedic said he was struggling to cope with the wounded among the refugees. Naim Bardiqi, who like many ethnic Albanians living abroad had returned from Germany to join the war, said that two children and a pregnant woman had died in his care.

Children were often among the victims, he said.

"They can't run so fast and don't know how to hide themselves," he explained.

Aid workers say a humanitarian catastrophe is unfolding and the risk of epidemics, such as cholera, is high

One of the last rebel strongholds to fall was the village of Lausa, blanketed on Tuesday by thick columns of smoke. According to survivors, soldiers and policemen used heavy weapons, including missiles, as well as a gas-spraying helicopter.

Officials said Serbian police had "neutralised armed groups of Albanian extremists" but there were believed to be no civilian casualties.

Gani Gecaj, a KLA fighter, told reporters that missiles had left craters several metres deep. On Monday several powerful detonations were heard from the direction of Lausa, much louder than the noise of the shelling by tanks and artillery of nearby villages.

Mr Gecaj said a military helicopter had flown low over Lausa, spraying gas over houses. The symptoms he described stinging eyes, burning throats and nausea indicated that government forces had used CS gas, a chemical used in some countries for riot control.

Army tanks backed by infantry and police wearing gas masks then overran the village, which had been besieged since March, Mr Gecaj said. He maintained that 150 to 200 inhabitants had been killed or taken prisoner.

Such claims are hard to confirm. Foreign reporters believe they have found the site of a mass grave under a rubbish tip close to the southern town of Orahovac, where civilians were killed during clashes between the KLA and special police units two weeks ago.

The tip is marked with sticks with the names of about 30 people, but some residents in the area claim that hundreds more were killed.

Lausa held symbolic importance for the KLA. It was there last November that three fighters of the underground movement appeared in public for the first time, to attend the funeral of a teacher a relative of Mr Gecaj whom police had gunned down at random.

Since those early beginnings, the KLA has mustered a force of several thousand men and just a month ago had taken control of large areas of central Kosovo and along the border with Albania, its main source of weapons and new recruits.

But the latest government offensive has sent the KLA reeling. Serbia's official media have proclaimed victory for the government in what it calls a justified response to attacks by Moslem "terrorists" on a land revered by Serbs for its ancient Orthodox Christian monasteries.

The KLA and the Kosovo Albanian political leadership accuse the US and its allies of giving President Slobodan Milosevic of Yugoslavia the "green light" to destroy the rebels as a significant force before serious negotiations begin on Kosovo's future status.

No government, not even sympathetic Albania, supports independence for Kosovo, fearing that this would lead to a bloody redrawing of Balkan borders.

The scale of the Serbian offensive makes the response of western governments and international aid agencies look inadequate. In 10 hours among several thousand refugees in western Drenica, reporters on Tuesday saw only two aid vehicles, both from the ICRC.

Angry and disillusioned refugees demanded to know why the world was apparently ignoring their plight. Mr Gecaj, the survivor from Lausa, said: "Europe and the world must know that this is a war for freedom and that a whole nation can't just be blown up and destroyed."

Talks to avert Cyprus showdown

By Karin Hope in Athens

Yannos Kranidiotis, Greece's deputy foreign minister, travels to Nicosia today to discuss ways of averting a confrontation with Turkey over the Greek Cypriots' plan to deploy Russian anti-aircraft missiles in southern Cyprus later this year.

His visit underlines a shift in Greek policy linked to efforts by the US and Nato to avert the deployment. Until recently Costas Simitis, prime minister, and his government showed reluctance to put pressure on the Greek Cypriots over the S-300 missiles.

The talks with Glafcos Clerides, Greek Cypriot president, will focus on a US-backed plan for a moratorium on Greek and Turkish military flights over Cyprus, which would be monitored by Nato from its Mediterranean headquarters in Naples.

Mr Kranidiotis's task is to persuade the Greek Cypriot leader to endorse the proposal at a meeting in Athens with Mr Simitis later this month. However, it falls short of his request for an international guarantee that Cyprus should become a "no-fly zone" for Greek and Turkish military aircraft.

Mr Clerides is likely to accept the moratorium only if it is linked with the resumption of talks between Greek and Turkish Cypriots on re-uniting the island.

"It's part of a package of important issues, such as resuming intercommunal talks, discussing proposals for troop reductions on the island and getting the Turkish Cypriots to participate in Cyprus's negotiations for EU accession," Mr Kranidiotis said. The missile purchase "will remain on track" while discussions continue.

The arrival of the S-300s, which were due to reach Cyprus this month, has been delayed until November.

NEWS DIGEST

TAX AND LABOUR REFORMS URGED

Jobless rate in Germany forecast to show decline

German unemployment will fall from a seasonally adjusted annual rate of 11.5 per cent last year to 11.2 per cent this year and 10.6 per cent in 1999, according to a forecast from the Munich-based Ifo economic research institute.

However, the report said jobless figures would stay above 4m in the forecast period, contradicting claims made by Chancellor Helmut Kohl in his campaign for Germany's elections on September 27.

The federal labour office in Nuremberg will today release its jobless figures for July. They are widely expected to show an increase in unadjusted unemployment figures, which receive more attention in Germany.

In spite of its generally upbeat forecast of Germany's economic growth prospects, the institute warned that failure to push through tax reforms and a reform of Germany's tightly regulated labour market could lead to even higher unemployment in the next economic downturn.

Meanwhile, a report from the Institut der Deutschen Wirtschaft, an economic research institute in Cologne, suggested the western German economy was increasing its competitiveness.

Unit labour costs were down 3.4 per cent in 1997, the strongest fall ever recorded. **Tobias Buck, Bonn**

BULGARIAN PRIVATISATION

US-Greek group buys bank

Alico, the US insurance company controlled by AIG, and Consolidated Eurofinance Holdings, part of a Greek-owned banking group, are to pay $38m for 78.2 per cent of Post Bank, a profitable Bulgarian bank offered for sale under the government's privatisation programme.

Bulgaria's Bank Consolidation Company, which handles bank privatisations, said the US-Greek partnership made a higher offer than National Bank of Greece, the only other bidder.

Alico and its Greek partner, which belongs to the EFG Eurobank group controlled by the Latsis family, agreed to inject $20m in capital over the next year. Spyros Kapralos, head of EFG's Balkan division, said the partnership would keep its equity stake for at least seven years and would pay 10 per cent of its share of Post Bank's profits to the Bulgarian state.

The privatisation of Post Bank was among conditions set by the International Monetary Fund for completing an $800m, three-year loan agreement for Bulgaria. Another three state-controlled banks will be offered to buyers in the next year under a scheme to improve banking standards. **Theodor Troev, Sofia and Kerin Hope, Athens**

POLISH ZLOTY

Depreciation pressure may rise

The head of Poland's central bank, Hanna Gronkiewicz-Waltz, said yesterday that depreciation pressure on the zloty could increase as a result of a cabinet decision to increase next year's planned budget deficit.

Last week the cabinet increased the deficit in next year's draft budget to 2.15 per cent of gross domestic product from 1.82 per cent. The budget plan will be sent to parliament for approval next month.

"A result of this [higher deficit] definitely could be a depreciation tendency on the domestic currency," Mrs Gronkiewicz-Waltz said. "I thought the dangers of currency depreciation had already faded. Everyone now is so impressed by the zloty's recent appreciation, but I am thinking ahead."

She said the zloty could lose ground after it became clear that this year's budget deficit would end up around the planned 2.7 per cent of GDP, not below it as analysts earlier thought. She said the zloty's strength could be jeopardised by the increased budget deficit because it would expand the country's current account gap and worry investors. **Reuters, Warsaw**

RUSSIAN PACKAGE

World Bank to approve loan

The World Bank's executive board is set to approve a $1.5bn loan for Russia today, but with leading industrial countries demanding that higher interest rates should be charged on similar loans in the future.

The Bank management says its proposed contribution to the Russian rescue is a standard structural adjustment loan, which should carry normal terms and conditions. The payments will be made in tranches, subject to conditions and in line with the Bank's existing country assistance strategy for Russia.

No one wants the loan blocked, but some board members may vote against it or abstain on principle, arguing that its size and timing are exceptional.

The debate is sensitive. A tense meeting last week agreed to make standard Bank loans for middle-income countries more expensive.

Some senior Bank officials are annoyed at industrial country pressure to toughen the terms of the loan after the event. They feel the Bank was pushed to contribute short-term liquidity support that should have been the responsibility of the cash-strapped International Monetary Fund. **Robert Chote, Economics Editor**

RUSSIAN OIL

Rosneft to get Sakhalin share

Rosneft, the state-owned oil company, will receive a one-third share in an oil development on Sakhalin island in the far east, the Russian government said yesterday. The news may increase the company's attractiveness to investors in a privatisation tender to be held in October.

Rosneft and its subsidiary, Sakhalinmorneftegaz, will each receive a 16.6 per cent share in a block in the Sakhalin 3 exploration project alongside Mobil and Texaco, the US oil companies, which will each own 33.3 per cent, the government said.

The Russian government has tried twice already this year to sell a 75 per cent plus one share stake in Rosneft, once in May for $2.1bn, and once in July for $1.6bn.

Both times the tenders failed to attract any bidders, who said that the asking price was too high in the light of the current low levels of world oil prices. In October, the Russian government will again attempt to sell the stake for $1.6bn. **Charles Clover, Moscow**

CORRECTION

Russia and IMF

A quotation in the FT of August 3 was wrongly attributed to Stanley Fischer, first deputy managing director of the International Monetary Fund. It was Anatoly Chubais, Russia's international finance negotiator, who said that it was a "certainty" that Russia would be able to complete the agreement reached with the IMF last month.

Japan backs plan to ease bank crisis

By Gillian Tett in Tokyo

The Japanese cabinet yesterday approved plans to create a "bridge bank" to tackle the country's financial problems and pledged to put the legislation for the scheme to parliament next week.

However, opposition parties warned they may try to block the proposed legislation in parliament.

Motohisa Ikeda, chairman of the banking panel of the Democratic party of Japan, the largest opposition party said: "The plan... is not sufficient to deal with the current financial crisis gripping the nation's largest banks."

The bill could lead to a political showdown in the coming days and deliver a further jolt to investor confidence in the government's policy measures.

Although the ruling Liberal Democratic party controls the lower house of parliament, the opposition has considerable power in the upper house following last month's election in which the LDP fared far worse than expected.

The issue of the bridge bank scheme has become particularly important in the financial markets because it is viewed as a crucial test of the government's determination to tackle Japan's long running financial problems.

The essential aim of the scheme, which was first announced earlier this summer, is to create a framework which would allow insolvent banks to be closed without triggering market panic or cutting credit lines to healthy borrowers.

The legislation unveiled yesterday envisages that the scheme would work through a two-step process if a bank was found to be insolvent. The first of these steps would place the insolvent bank under the control of a government body, known as the Heisei Financial Revitalisation Corporation.

This body would try to find a buyer for the bank, while maintaining credit lines to healthy borrowers. If no buyer was found after two years (or five years in "exceptional" circumstances) the government would take over the bank's assets and wind it down.

When the plans were first announced this summer, they triggered hopes the government was finally preparing to take radical action to weed out Japan's weakest banks.

In recent days these hopes of radical action have been partly dashed after some senior officials in the LDP called for a "soft landing" for the sector and suggested that the scheme would only be used for the smaller banks. Some analysts fear this means the LDP will refuse to implement real restructuring among the top 19 banks. There is concern that judgments about which borrowers are "healthy" enough to receive loans from the bridge bank will be politically motivated.

A senior ministry official yesterday insisted the definition of a healthy borrower would be taken by an independent committee "to make sure there was no political influence". Another insisted it "was by no means ruled out that the scheme would be used for the top 19 banks".

Analysts warn investor confidence could be badly damaged in the coming days if the government appears to water down its commitment to taking radical action, or if the plans are delayed because of political opposition. James Fiorillo, analyst at ING Barings said: "The bridge bank scheme is pragmatic in its shape but what is not clear is whether the government will use it in an effective way."

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NEWS DIGEST

VIETNAMESE STANDING COMMITTEE

Communist party chief faces corruption probe

Pham The Duyet, one of five members of the Vietnamese Politburo's elite standing committee, is being investigated for corruption by party leaders, the Far Eastern Economic Review has reported.

The probe was triggered by allegations made in a letter by 11 senior party members to party chiefs in May. Those allegations in turn were aired during the Communist party plenum in July, the Review said. That information came to light when the Review received a fax of the letter from an unknown source. In it, a party veteran, Doan Nhan Dao, and the others allege that Mr Dyet used state money to acquire homes in Hanoi for himself and his children, and permitted the capital's bureaucrats to do the same. Mr Dao confirmed he and his comrades wrote the letter, but stressed that none of his group had sent it to the Review.

Although the party has been reluctant to discipline senior members for living apparently beyond their means, it will have to take this complaint seriously. Many in Mr Dao's group have been loyal party members for 50 years, and their voices add to the growing public outrage at corruption in the government's highest levels, according to the Review.

Charges of abuse of power for personal gain among Vietnam's top officials are not new. But punishing a top official would be, the Review says. "The party's central control commission is considering these questions," a top government official says. Mr Duyet couldn't be reached for comment. **Dow Jones, Hanoi**

BRUNEI FEUD

Sultan denies prince's claims

The Sultan of Brunei indirectly denied charges by his disaffected younger brother, Prince Jefri, that he was being influenced by Islamic extremists, according to a Brunei newspaper report.

The charges against the Sultan were levelled by Prince Jefri earlier this week in a public airing of a family feud over losses of billions of dollars.

The Borneo Bulletin, the sultanate's English newspaper, on Tuesday reported charges by Prince Jefri's spokesman that Moslem conservatives, backed by Iranian and Libyan advisers, were gaining a foothold in the sultanate. The spokesman says Prince Jefri is the victim of a plot by those conservatives. The accusations came after the Sultan stripped the prince of control over the family's foreign assets. **Sheila McNulty, Singapore**

JAPANESE R&D

Miti targets small companies

Japan's Ministry of International Trade and Industry (Miti) plans to call on small businesses to participate more in government-funded technology research and development, officials said yesterday.

The plan followed a request by Kosaku Inaba, chairman of the Japan Chamber of Commerce and Industry, that Keizo Obuchi, the new prime minister, adopt such an initiative as a way to spur growth of new businesses in Japan, according to the officials. Miti plans to seek appropriations in next year's budget to expand help to small companies willing to pursue R&D. Appropriations for small companies are estimated at some Y5bn to Y6bn ($34m-$41m), less than 1 per cent of Japan's Y3,000bn budget. **Kyodo, Tokyo**

UNRESOLVED DISPUTES FOREIGN TELECOMMUNICATIONS GROUPS SEEK CUT IN FEES AND POSTPONEMENT OF CONTRACTUAL DEADLINES

Jakarta set to delay telecom privatisation

By Sander Thoenes in Jakarta

Indonesian officials said yesterday an unresolved dispute with foreign telecommunication companies would force the government to delay privatisation of its telephone utility Telekomunikasi Indonesia (Telkom), the largest of 12 companies up for sale.

The delay to an unspecified date challenges the government's efforts to raise $1.5bn in badly needed revenues this fiscal year from privatisation, as agreed with the International Monetary Fund. Traders yesterday rushed to sell outstanding shares in several partially privatised companies on the assumption that bids for these groups, which could have boosted the value of outstanding shares, would be delayed as well.

Sofyan Djalil, assistant to the minister for state enterprises, said the government's 75.8 per cent stake in the partially privatised Telekom could not yet be divested further because of a dispute with foreign ventures which would deter investors.

Telkom has five joint ventures for laying and operating telephone networks in five regions, with partners such as Cables & Radio of France and Cable & Wireless of the UK, which have invested a total of $1.28bn since 1996. Faced with a collapse of the rupiah and falling revenues, these investors have demanded a reduction in fees to be paid to Telkom and a delay to contractual deadlines.

Telkom agreed on a minor reduction of fees but analysts said more concessions would be needed before the projects could proceed as scheduled, cutting further into Telkom's revenues.

Other privatisation programmes could also face delays.

The minister for state enterprises, Tanri Abeng, had earlier told a local newspaper that he would first privatise companies with dollar revenues, which have been less affected by the collapse of the rupiah than Telkom. This could include Indosat, the international call operator, as well as three mining companies. Analysts expect few obstacles to the sale of shares in Indosat, which has been very profitable.

Meanwhile, Cemex of Mexico and several other foreign companies are expected to make substantial final offers later this month for Semen Gresik, a cement mill. But a number of other companies up for sale need to address outstanding issues, such as debt and unlimited liabilities, before they could attract substantial offers, analysts said.

Mr Djalil said the three mining companies may be merged first, which would cause another delay in privatisation.

The Jasa Marga toll road company, though profitable, would need to renegotiate unlimited liabilities with private toll road projects, most of which have been shelved, analysts said.

Workers protested in June at the airport management company of Jakarta's main airport, also up for sale, to demand that the company cancel a series of service and supply contracts with companies controlled by the family of former president Suharto.

Many state enterprises saw their coffers depleted by padded contracts with well-connected companies. Analysts said that profits at several leading state companies, including some already listed and due to be divested further, have been funnelled away to support other industries or pet projects of Mr Suharto.

Mr Djalil also said that 19 companies had expressed interest in a new tender for Krakatau Steel but added that the company may first have to restructure its subsidiaries, cut costs and reduce staff. An earlier attempt to sell the Krakatau Steel mill failed amid controversy over a lack of transparency. Two port authorities and one plantation are also due to be privatised.

Beijing appeals for brake on sell-offs

By James Harding in Shanghai

China yesterday called for a slowdown in the sell-off of small state-owned enterprises, underlining Beijing's concern that their sale threatens to increase unemployment and undermine social stability.

The government's demand that regional authorities put a brake on the sales suggests that Beijing's commitment to state sector reform is weakening in the face of slowing economic growth and rising redundancies.

The People's Daily, the newspaper widely regarded as the mouthpiece of China's Communist party, said yesterday: "The spree of selling enterprises is spreading, which disrupts the ongoing work of re-employing laid-off state firm workers. This has triggered serious social problems in some areas."

Regional governments must take urgent measures to arrest the trend, it added.

"Small state firms employ a large number of people and they play an indispensable role in easing unemployment pressure and maintaining social stability."

The transfer of small state enterprises into private hands was one of the central elements of President Jiang Zemin's address at the Communist party congress in September, which was intended to set the country's strategic course for the coming five years.

The Chinese leadership is at pains to avoid the term "privatisation", but Mr Jiang's keynote address sanctioned the use of acquisitions, mergers, takeovers and bankruptcy to breathe new life into China's ailing state industries. In particular, the government said it was prepared to release control of small state enterprises.

"Letting go the small does not mean selling all of the small [enterprises] without exception," the People's Daily said.

"Enterprise reform affects the immediate interests of the vast number of workers and the stability of society, so rash actions must not be taken."

The newspaper report follows signals elsewhere in the state-controlled media that have highlighted the Chinese leadership's increasing anxiety and caution over pressing ahead with painful economic restructuring for fear of adding to the growing ranks of the country's unemployed.

According to official figures, China's state enterprises are due to lay off 3.5m workers this year alone, on top of the existing 11.5m officially unemployed.

However, economists privately suggest the true number of people out of work is much higher.

Malaysia airport 'too far' from KL

By Sheila McNulty in Singapore

First it suffered computer problems. Then a rat infestation. Now Malaysia's new M$9bn ($2.2bn) high-tech airport has been declared too far from the capital.

MAS, the national carrier, says it will shift some domestic flights back to the old airport. It is about half the 70km distance of the new one from the capital, and close to one-third the taxi fare. With traffic clogged amid feverish building before next month's Commonwealth Games and Malaysians coping with their worst economic crisis, these are important considerations.

And they have provided a boost to the small domestic airlines that stayed behind when MAS moved to its shiny new hangars: Air Asia, Transmile, Berjaya and Pelangi Airlines.

"For the convenience of passengers, the national carrier will move some of its domestic operations," Ling Liong Sik, the transport minister, was reported as saying. MAS has yet to say how many flights will be returned and when.

Passengers worry moving too many will burden those arriving from abroad en route to other domestic destinations. If the connecting flight is too many hours away, or not even available at the new airport, they will have to drive through the heavy traffic to the old airport to catch one.

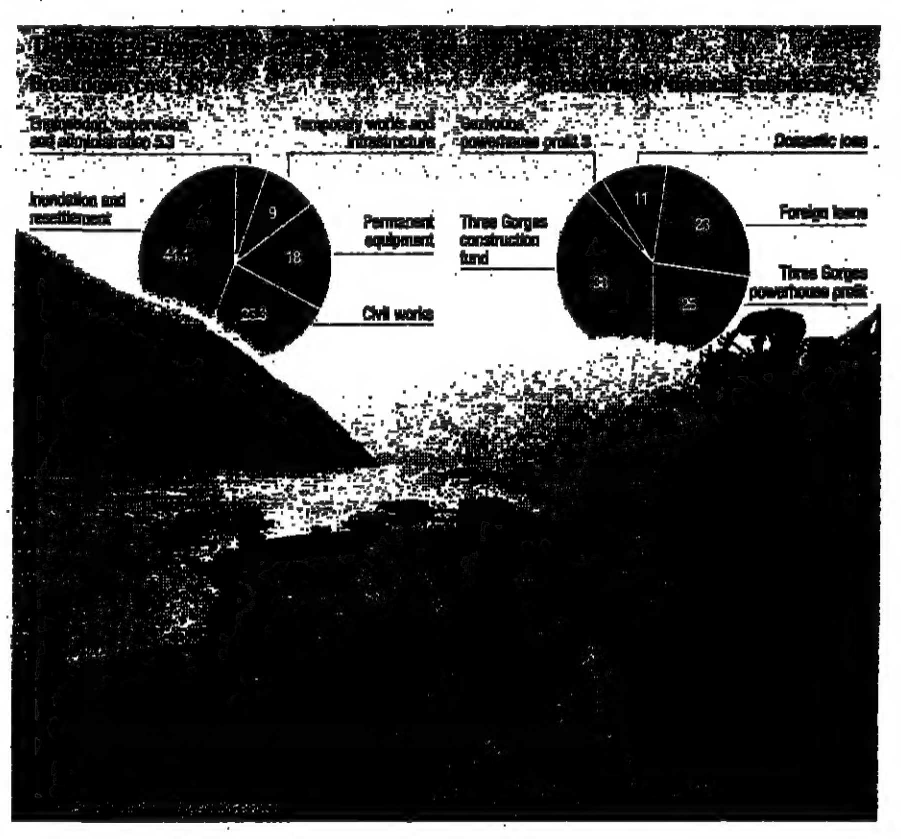
But right now the concern is centred on Malaysians travelling from the capital to the provinces. Many former airline passengers are driving from Kuala Lumpur to cities such as Penang, because going by air now takes almost the same four hours. It can take over an hour to get to the airport, and then there is the hour wait before the flight, the hour flight, and then the half hour drive to location.

Some regular commuters from Singapore are starting to make the four-hour drive to Kuala Lumpur for the same reasons.

Steven Tan, who analyses MAS for Ke-Zan Securities, says the airline was not making money on its domestic operations anyway. With outbound flights to Peninsular Malaysia estimated to have fallen 30-40 per cent since MAS shifted to the new airport on June 29, "moving selected operations back will help in curbing the losses".

Three Gorges seeks to open financing floodgates

But widespread foreign investor concern may lead to problems, writes **James Harding**



To the delight of contractors and dismay of detractors, China's Three Gorges dam on the Yangtze river is taking shape. The coffer dams are in place, parts of the dam wall are already standing and the rough outline of the huge five-step ship lock system has been cut out of the rock on the north bank.

While prestige construction projects such as the Channel Tunnel between Britain and France may have run out of time and over budget, the developers of China's $24.5bn hydro-electric plant claim all is running to schedule.

"At the Three Gorges we are confident we can control costs and stay within budget," says Wang Jiazhu, deputy general manager of China Three Gorges Corp, the state company in charge of the world's largest civil engineering project.

And yet, despite the progress on site, pressure is building in the boardroom. China's flagship infrastructure project is in need of funds and Three Gorges is looking to foreign investors to come up with the money.

"We have begun thinking about how we can raise 20 per cent of the financing [roughly $5bn] from overseas," says Mr Wang, in an interview at the Three Gorges construction site near Yichang in central China.

But raising foreign funds may not be easy. The process threatens to expose once again the uncertainty and opposition that surrounds a project lauded by some as the symbol of China's modernisation drive and technical sophistication, while criticised by others as a monument to government hubris and reckless environmental destruction.

The first phase of construction, which involved the diversion of the Yangtze, was completed on time and, thanks to the sharp fall in Chinese inflation, RMB1bn ($120m) under the RMB30bn budget.

Beijing has earmarked 60 per cent of the funding needed. But the state financing is heavily weighted towards the final years of the project, which is due for completion in 2009. Before then it will need cash.

The financial pressures have prompted a range of funding activities. The corporation has recently agreed a short-term borrowing facility worth RMB6bn from three of China's leading commercial banks. There are also plans to issue a further RMB4bn-RMB5bn in domestic bonds over the next five years, following the first RMB1bn Three Gorges bond already issued successfully to mainland Chinese investors.

The corporation is also considering an international bond issue, and China International Capital Corp, the investment bank in which Morgan Stanley Dean Witter holds a 35 per cent stake, is working with it on plans for a share listing on the New York and Hong Kong stock exchanges.

Proposals for a public offering are at an early stage and will depend on the approval of the state council, China's cabinet, which oversees a project which is a matter of national pride.

"Our foreign borrowing so far has largely been associated with the purchase of equipment," Mr Wang says, citing just over $1bn in export credits to fund generator and turbine purchases. "The further utilisation of foreign capital will depend on structural issues. We are considering becoming a shareholding company, but this will depend on the government."

It will also depend on the willingness of foreigners to sign up for a Chinese project that has generated huge international opposition.

The International Rivers Network, the US-based group which campaigns against the Three Gorges project, describes it as "the most environmentally and socially disastrous project on the planet. It will not work."

The Three Gorges dam – which will create a reservoir covering an area in excess of 600 sq km, force the relocation of more than 1m people and destroy ancient sites as well as drown wildlife unique to the region – has been fiercely criticised by domestic and foreign environmentalists. In all, more than 40 non-government organisations are campaigning against it.

The US Export-Import Bank, the government's export credit agency, has so far withheld support for the project in the light of concerns raised by environmentalists, human rights groups and seismologists, who are concerned about the pressure that such a huge body of water would have on the earth's crust.

Unusually for such a large infrastructure project, the World Bank is not involved. China did not ask for assistance, knowing the Bank was likely to reject the request on environmental grounds.

Richard Margolis, first vice-president at Merrill Lynch in Hong Kong, says: "The controversy surrounding the Three Gorges project would make it a more difficult issue to market."

International investors may shy away from the project for fear of repercussions at home, says one Hong Kong-based analyst at a US bank. "There will be a number of people who are not prepared to invest because of their environmental concerns, and there is a portion of the potential fund market which will not be interested because of their investment mandates."

However, Mr Wang is unlikely to be deterred from approaching foreign investors. Becoming a shareholding company is about more than raising funds and cash-flow pressure, he says. It is about restructuring the corporation into a long-term business.

"We are now borrowing more money internationally and locally," he says. "But to be listed would be good for the company. We are thinking about listing not because we are short of money... It would be good for the development of the company. We are thinking of developing projects on the upper reaches of the Yangtze."

S KOREA ECONOMY CENTRAL BANK CHALLENGE ON LENDING RATES

Cuts in rates criticised

By John Burton in Seoul

South Korea's central bank yesterday criticised further excessive cuts in bank lending rates in a challenge to the finance ministry, which has encouraged reductions in interest rates to revive growth and avoid more corporate bankruptcies.

The Bank of Korea said cuts in interest rates should be delayed until corporate and financial restructuring was completed.

Decreases in lending rates are potentially harmful because they may cause banks to tighten credit, since they threaten to erode the profitability of the troubled banking sector.

The bank said the gap between bank lending and deposit interest rates was not excessive compared with industrialised nations. The bank's comments came amid criticism that commercial banks were making excessive profits by maintaining wide gaps in interest rates.

The finance ministry has urged banks to cut lending rates, which have fallen to 10.5 per cent for the prime rate. This has largely benefitted Korea's large conglomerates, or *chaebol*, which are regarded as good credit risks by the banks.

But small businesses are still subject to much higher lending rates because they are considered more risky.

The criticism by the Bank of Korea implied that the restructuring of the *chaebol* demanded by the government could be delayed since they are able to retain access to cheap credit despite high debt burdens and excess production capacity.

The central bank noted that the prime rate was abnormal since it was below that of the trading yield of 11.3 per cent for government debt, although the latter has little risk of default.

The report issued by the central bank came as the government stepped up pressure for *chaebol* reforms, saying the nation's ten leading industrial sectors should be restructured through mergers and acquisitions to reduce excess production capacity.

SOUTHERN AFRICAN SUMMIT LEADERS TO DISCUSS CRISIS AMID NEW CONCERNS ABOUT ANGOLA

Congo revolt fuels fears of growing regional instability

By Our International Staff

Southern African leaders are due to meet tomorrow to discuss their region's deepening crisis.

As Congolese rebel forces consolidated their hold on the country's eastern region and vowed to overthrow President Laurent Kabila, African diplomats also expressed continuing concern about developments in neighbouring Angola.

Although they welcomed the news that Unita rebels were prepared to resume talks with the government in Luanda, they remained fearful that the country could sink back into civil war.

President Robert Mugabe of Zimbabwe will host the summit, first proposed last week by Ugandan President Yoweri Museveni at a regional economic meeting in Namibia.

But the rapid deterioration of the security situation in Congo (formerly Zaire) has forced the leaders to give urgent consideration to the prospect of South African-led intervention, which was raised by the country's defence minister this week.

In a further setback for Mr Kabila, his foreign minister Bizima Karaha defected to the rebels, and government officials acknowledged that the eastern town of Bukavu had fallen to a Tutsi-led dissident faction of the new Congolese army after two days of heavy fighting.

Government officials accused troops from estranged ally Rwanda's Tutsi-dominated army of taking part, which has been denied by Kigali.

Speaking from the eastern city of Goma, which is acting as a headquarters for the rebellion, Mr Karaha accused President Kabila of corruption and nepotism, and said he had failed to charter a clear political programme for Africa's third largest country.

Mr Karaha is a leader of the Banyamulenge or ethnic Tutsis, who helped Kabila topple Mobutu in May 1997, with Rwandan support, but have now risen up against him. "This is a countrywide revolution to topple Kabila. It is spreading like fire. Towns are falling to our forces without resistance because people are disillusioned and angry with Kabila," Mr Karaha told Reuters in a telephone interview.

Mr Karaha, a medical doctor who doubled as Kabila's chief strategist, insisted that the rebellion in the Democratic Republic of the Congo was not backed by Rwanda.

"Kabila has failed to govern. In his one year in power he has done more political damage than Mobutu Sese Seko ever did in 32 years," he said, referring to the ousted dictator.

He said that Kabila had surrounded himself with members of his family and tribesmen from his Balubakati clan, appointing them to top positions in government, security agencies and the army. Top of the list of Kabila's relatives in government were his cousin and interior minister, Gaetan Kakudji, his brother-in-law and chief of army staff, Celestin Kifwa, his son and deputy chief of army staff, Joseph Kabila, and his nephew and justice minister, Mwenze Kongolo.

Kinshasa itself emerged from a second night of curfew, during which shooting rang out in the central Gombe diplomatic district. Witnesses reported seeing two bodies in the street.

Officials in Kinshasa, who say ethnic Tutsi Banyamulenge and neighbour Rwanda are behind the revolt, conceded that Bukavu had fallen.

"Bukavu is controlled now by the others. They took it, it's already fallen," a senior interior ministry official in Kinshasa told Reuters.

But he denied reports that fresh fighting had broken out in the former Zaire's third largest city, Kisangani, deep in the jungle interior, saying there may have been some shooting but that the town was still occupied by loyalist troops.

UN sources said fighting had closed the airport outside Kisangani on Tuesday. Airline sources said a planned Wednesday Congo Airlines flight to the city had been cancelled.

The Voice of the People radio station in the eastern town of Goma, where the revolt began on Sunday, introduced opposition politician Arthur Z'Ahidi Ngoma as coordinator of the uprising.

Jewish settlers win support from Netanyahu

By Judy Dempsey in Jerusalem

Benjamin Netanyahu, Israeli prime minister, yesterday gave Jewish leaders in the small West Bank settlement of Yitzhar backing to expand after gunmen shot dead two settlers in an ambush late on Tuesday night.

The two residents of Yitzhar, an isolated settlement of 55 families near the Palestinian-controlled town of Nablus, were on patrol when their vehicle was sprayed with bullets. No group claimed responsibility.

Mr Netanyahu said the killings showed why he demanded that Yassir Arafat, president of the Palestinian Authority, crack down on militant groups. On Israeli radio he said this was a precondition for Israel agreeing to hand over West Bank land to Palestinian control. A government official confirmed Mr Netanyahu had told Yitzhar settlers he would support plans to expand the settlement.

Marwan Kanafani, adviser to Mr Arafat, said: "We condemn killing from the two sides," adding that the only solution was to return to negotiations with "honest intentions". In recent weeks Jewish settlers have killed one Palestinian and ransacked Palestinian property, especially near Hebron.

The killings could jeopardise the fragile talks between Israel and the Palestinians over a delayed Israeli troop withdrawal from the West Bank which so far have failed to make headway. Mr Netanyahu has suggested a redeployment of troops that would hand over 10 per cent of West Bank land to Palestinian control. An additional 3 per cent would be placed in a special category without full Palestinian control. The Palestinians have accepted a US plan calling for a 13 per cent handover.

Mr Netanyahu yesterday finally presented maps to the "inner" cabinet which includes Natan Sharansky, trade minister, and Ariel Sharon, the infrastructure minister, who both oppose any substantial redeployment. No decision was made.

Mr Arafat raised the redeployment at the Palestinian Legislative Council session where he announced cosmetic cabinet changes. They followed a report last year by the PLC's auditing committee alleging that several ministers, including Nabil Shaath, trade minister and main negotiator with international donors, had misappropriated funds.

Mr Arafat sacked one minister, made three into ministers of state without portfolio, and moved one to another ministry.

Hanan Ashrawi, education minister, was moved to the tourism ministry to organise fundraising for the millennium, while Abdul Jawad Saleh, the agriculture minister who dared challenge Mr Arafat's authority, was made a minister of state without portfolio.

He had wanted to leave the cabinet. "I'm convinced that there's no cabinet, and corruption became an institution in the Palestinian system," he told Mr Arafat.

Saddam puts the Security Council's resolve to the test

Iraq's dictator believes divisions within the UN will lead to an unofficial crumbling of sanctions, reports **Roula Khalaf**

Iraq's oil minister, Amir Muhammed Rasheed, left, and the foreign minister, Mohammed Saeed al-Sahaf, brief MPs on the weapons inspection crisis. Parliament has urged an end to all co-operation with the UN Reuters

It has become a familiar scene. Iraqi President Saddam Hussein is once again testing the resolve of the international community and provoking a crisis to force a debate on the United Nations sanctions that are crippling his country.

By freezing the work of weapons inspectors until several conditions are met and demanding that Unscom, the inspectors' special commission, immediately declare Iraq free of weapons of mass destruction, Mr Saddam is attempting to turn disarmament into a political rather than technical issue.

"Iraq wants to force a political decision on inspections in the Security Council," explains a senior diplomat in Baghdad. "It wants to test its support, see what the secretary-general of the UN can do and what some members in the Security Council can do for Iraq."

Bolstered by sympathy from Russia, France and China and eroding support for sanctions that have been in place for more than seven years, Mr Saddam seems to have calculated that he will not achieve a formal lifting of sanctions through an Unscom declaration that he has come clean on his weapons of mass destruction.

The Iraqi strongman said this much in a speech a month ago marking 30 years of Baath party rule, when he vowed that sanctions would disintegrate this year, although they would not be formally lifted by a Security Council decision.

His hope, say diplomats, is that divisions within the Council would deepen by October, when it reviews sanctions, and reach a point where countries no longer feel bound by a firm policy on Iraq, effectively leading to a crumbling of sanctions.

Mr Saddam considers the time ripe to test the UN. An increasing number of countries are eager to see sanctions lifted, a move which would be fiercely opposed by the US and UK unless accompanied by a clean bill of health on disarmament. The credibility of Richard Butler, the chief weapons inspector, and that of Unscom, have come under question and Iraq's version of events and arguments are no longer dismissed out of hand.

Mr Saddam is also betting that the risk of a US military attack on Iraq is minimal, with little appetite for military action in the Security Council and among Arab neighbours.

The signs of a crisis in the making have been accumulating for a while. Mr Saddam is notoriously unpredictable and how far he will go in the latest confrontation with the UN will largely depend on the reactions from the Security Council and from Kofi Annan, UN secretary-general.

After brokering a deal last February which pre-empted a US and UK-led military strike, Mr Annan is seen by the Iraqis as a mediator who can smooth relations between Baghdad and Unscom, and Baghdad and the Security Council.

It was largely thanks to Mr Annan's agreement that relations improved between Iraq and Unscom for a period this year, with both sides hailing a new spirit of co-operation.

By June Iraq and Unscom had agreed a two-month accelerated work programme to clear up remaining disarmament issues. In a bout of excessive optimism aimed at showing his goodwill, Mr Butler said at the time that he was working with the aim of presenting a final report on disarmament to the Security Council for its October review of sanctions.

But the work programme seems to have been more form than substance. It was soon revealed that Iraq had refused to include in the programme its development of VX nerve gas, when fragments of special warheads excavated in June apparently revealed traces of the gas, contradicting claims by Baghdad that it never loaded the nerve gas on to weapons.

Details of meetings with Iraqis have not been made public but Unscom officials have said Baghdad did not provide new evidence to support its claims that it has destroyed all its deadly weapons. While files on ballistic missiles and chemical weapons are near completion, Unscom is far from forming a clear picture of Iraq's efforts to develop biological weapons.

Unscom also says it has found a document on chemical weapons which Iraqi authorities are refusing to hand over.

Iraq, meanwhile, this week reverted to its old accusations that inspectors are deliberately refusing to move forward on disarmament, and are following US policy which aims to maintain sanctions indefinitely.

As its authorities became convinced that the accelerated inspections exercise would not lead to a positive report by the special commission in October, it began preparing public opinion for a confrontation with inspectors and with the United Nations.

In declarations and resolutions by various Iraqi institutions in recent weeks, Baghdad has been calling for an immediate end to weapons inspections, and hinting at "alternative" unspecified strategies to bring an end to sanctions.

Last week an Iraqi newspaper charged that a US inspector working for Unscom was guilty of espionage, after allegedly having been found taking pictures of a train carrying military equipment.

Similar accusations against another US inspector were a main precursor to the crisis which eventually led to the February stand-off with the UN.

"We see the same signs and mobilisation of public opinion that preceded previous crises," says a diplomat in Baghdad. "But we will have to see whether this will have the same effects as before."

US TELECOMS REGULATOR AIMS TO RELAX RESTRAINTS ON ARRANGEMENTS WITH INTERNATIONAL CARRIERS

FCC moves to ease rules for phone deals

By Mark Suzman in Washington

The Federal Communications Commission, the chief US telecommunications regulator, is today expected to launch a policy review aimed at making it easier for international phone companies to negotiate new settlement rates with US carriers.

The move is in response to growing liberalisation of the global telecommunications market. If the review's recommendations are accepted, competitive global carriers would be permitted to strike deals directly with US companies without having to apply for regulatory approval.

Under current rules, all existing agreements between international and US telephone companies must be referred to the FCC before being implemented. The agency has the power to intervene if it feels that foreign companies are unfairly discriminating against US carriers in their home country. However, many companies have complained that the restrictions date from a time when most international phone agreements were negotiated with domestic monopolies.

In response to such concerns, the FCC now believes that the rules need to be modified to recognise that many parts of the world have very competitive telecommunications markets.

"Basically it's a response to changes that have already occurred in a lot of countries, especially in Europe, and we want to cut out an unnecessary bureaucratic step," a FCC official said. "It's a move that would give greater opportunities for US carriers and ultimately benefit US consumers."

As part of the WTO telecommunications agreement which came into force earlier this year, the FCC has already taken steps to ensure that its domestic telecommunications market is open to international competition.

Under the new changes – which are not required as part of the WTO accord – the FCC would set out a series of benchmarks relating to settlement prices. Provided those conditions were met, carriers would be free to negotiate and modify agreements without regulatory review.

The FCC will vote on the review at a commission meeting today. If approved, the proposals would then be presented for public comment for two months, after which the agency will take a formal decision on whether to adopt the changes.

● The Commission will also debate a measure designed to improve delivery of high speed internet access to US consumers. The proposal would allow local US telephone monopolies – the so-called "baby Bells" – to offer advanced digital services to customers without being required to make the equipment available to competitors as is currently the case for local phone lines.

Australia limits wool sales to bolster prices

By Gwen Robinson in Perth

A decision by the Australian government to freeze wool sales from the country's vast stockpile yesterday deepened divisions within the industry and highlighted growing political tensions over the conservative government's trade policies.

The government of John Howard, prime minister, yesterday said it would suspend for 12 months sales from its 1.1m-bale wool stockpile, in an effort to bolster falling prices by removing substantial volumes of wool from international markets.

The decision was an abrupt turnround from the government's indication earlier this week that it would maintain stockpile sales, and followed a fall of about 5 per cent in wool prices at auctions in Sydney and Melbourne on Tuesday.

More significantly the government's shift followed calls by Pauline Hanson, leader of the extremist One Nation party, to freeze wool stockpile sales in order to help producers.

Ms Hanson's protectionist trade policies and anti-immigration platform have gained substantial support in depressed rural areas of Australia.

As speculation about an early election has grown, Mr Howard's conservative coalition has been forced to promise new measures to help farmers – particularly in recent weeks. Ms Hanson yesterday said the government was "running scared" of her party's support. Critics warned that the wool decision would lead to greater protectionism and a return to price manipulation and other flawed policies which had left Australia with a mountain of unsold wool in the early 1990s.

"Whatever Ms Hanson says, Australians will perish if we get to the situation of an isolationist policy where we simply don't trade with other nations, and if we so affront our trading partners with irresponsible policies and lose those markets we have no one to blame but ourselves," said Jeff Kennett, prime minister of Victoria and a member of Mr Howard's Liberal party.

Mr Howard, however, defended the decision and said it was taken in the interests of the wool producers of Australia.

The stockpile was established in about 1991 at a peak level of 4.7m bales after the government abandoned its wool reserve price scheme. It was intended to stabilise prices with quarterly sales of stockpiled wool. Before the freeze, Wool International, the statutory authority in charge of selling off the stockpile by the end of 2000, was required to sell between 90,000 and 350,000 bales a quarter.

Analysts said the freeze would take about 9 per cent of wool off the market in a narrow micron range of coarse wool.

Wool producers in wool-exporting states including Western and South Australia welcomed the move and said it would provide short-term relief to an industry hit by falling sales to Asia.

But the main industry body, the Wool Council of Australia, warned the move could open the way for competitors to usurp Australia's traditional markets and could even encourage a shift to cheaper, synthetic fibres.

The National Council of Wool Selling Brokers of Australia, meanwhile, described the government's turnround as "completely unacceptable". Wool sales from now would have to proceed under a "different and ill-defined set of rules," said the council's president, Don Fraser.

"The industry has engaged in an intensive review of policy options and decided in the past week that existing policy should remain in place. It is extraordinary the government should overturn that position in 24 hours," he said.

Despite widespread criticism of the government's decision, Australian wool auction prices stabilised in yesterday's trading and wool futures rose. Critics warned, however, that the effect would be temporary and would quickly damage Australia's international image as a reliable supplier.

NEWS DIGEST

KENYAN LABOUR DISPUTE

Bank strikers ignore threat of dismissal

A deadline for thousands of striking Kenyan bank employees to resume work or face dismissal passed yesterday with no sign that either side would back down. The strike, which has virtually paralysed banking operations and currency markets, entered its third day yesterday. Around 12,000 bank workers, who belong to Kenya's most powerful union, have been going to their offices every day but refusing to do any work.

They are protesting against government plans to tax interest-free or low-interest loans available to bank staff. The commercial interest rates for ordinary customers is around 25 per cent. Commercial banks have not accepted deposits or cashed local cheques because clearing houses were effectively closed. Dealers said the strike had rendered inter-bank trading almost impossible.

Kenya has been hit by industrial unrest since last year with nurses, bankers, teachers and postal workers going on strike or threatening strike action. **Reuters, Nairobi**

ANGOLAN PEACE TALKS

Savimbi agrees to dialogue

Jonas Savimbi, leader of Angola's Unita rebel movement, has agreed to reopen dialogue with the Luanda government after a freeze in relations following the death in an air crash six weeks ago of the UN special representative to Angola, Alioune Blondin Beye.

Mr Savimbi said he would allow Isaias Samakuva, Unita's chief negotiator since a peace agreement was signed in Lusaka in 1994, to return to Luanda this week. He said he would restart talks on handing over his main stronghold in and around Andulo to government control.

Mr Savimbi's refusal to cede his headquarters in the central highlands is the most important element of the Lusaka pact still to be implemented, and diplomats fear delaying tactics by Mr Savimbi could provoke an army offensive. **Nicholas Shaxson, Luanda**

ALGERIA'S CIVIL CONFLICT

UN completes mission

Algeria's violence continued unabated as a United Nations delegation ended its 12-day fact-finding mission to Algiers. Seventeen villagers were killed in three massacres on Tuesday night, in Tiaret province, 220km south-west of Algiers, and Tlemcen, 440km west of the capital.

The UN panel, led by Mario Soares, the former Portuguese president, began discussing results of its trip in Lisbon yesterday and members were due to meet with Kofi Annan, the UN secretary general, today. A report on the mission, expected to be made public, will not be released for several weeks.

The panel met a wide cross-section of Algerian civil society and political parties, and left with hundreds of documents about alleged disappearances and human rights abuses. But the Algerian government stood firm on its demands that the panel could not meet leaders of the Islamic Salvation Front (FIS), the now-banned party which was set to win elections cancelled by the army in 1992. **Roula Khalaf, London**

PETROL RETAILING IN THAILAND

Mobil predicts decline

Mobil Oil of the US yesterday said it would not build any more service stations in Thailand and predicted many would close. Mobil Oil Thailand president, Duke Keiser, forecast that between 2,000 and 2,500 of Thailand's 13,000 service stations would be forced out of business this year due to shrinking demand for fuel and rising repossessions of cars.

According to newspaper reports, Mobil Oil Thailand plans to spend $6m over the next 12 months for the completion of service stations already under construction, and to strengthen its retail network and improve its lubricant blending facility. **AP-DJ, Bangkok**

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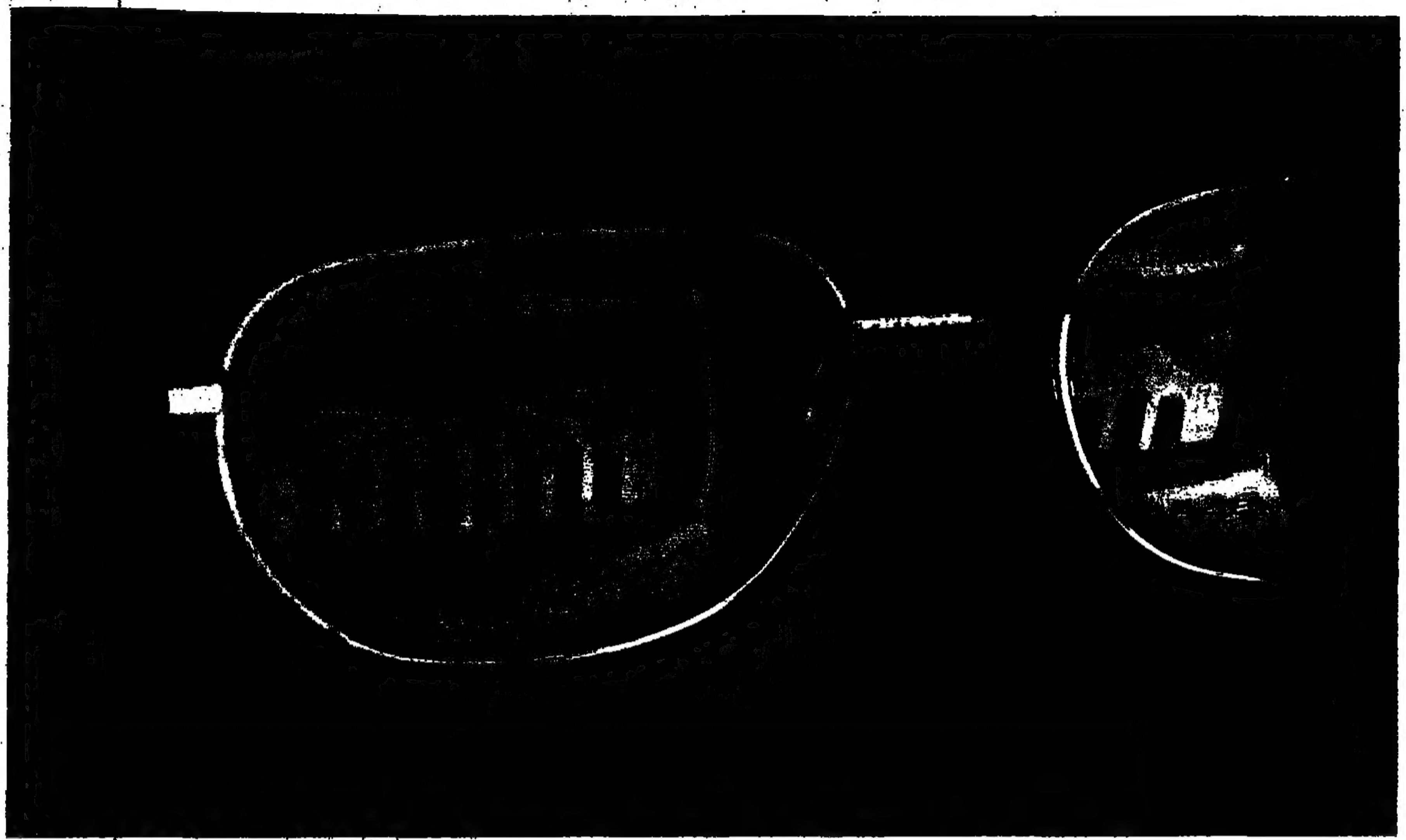

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Drugs promotion spending soars

By Jenny Luesby

Television advertising of prescription drugs is spiralling upwards in the US after a rule change last year which allowed such advertising for the first time.

Mass media campaigns promoting brand-name drugs began the day the rules changed, August 8 last year. By the end of 1997, the top 10 advertisers had spent $764m. IMS, the health information company, believes drug companies are on course to spend more than $1.3bn on marketing drugs directly to consumers this year.

Advertising agencies are racing to exploit the new market, with the first celebrity advertisements just out featuring former Good Morning America television host Joan Lunden endorsing Schering-Plough's Claritin for allergies.

First evidence suggests that drugs sales, health care budgets and the relationship between doctors and patients are all likely to be affected.

Last week, Glaxo Wellcome, which has led the way with the scale of its advertising to consumers, revealed a sharp increase in sales of the six products that it has so far promoted to consumers. Sales of the group's antidepressant Wellbutrin and the anti-smoking drug Zyban have more than doubled since last year.

No one has yet identified the number of prescriptions being written as a direct result of consumer advertising, but Glaxo observes that its Zyban campaign, launched in January, coincided with a three-fold jump in visits to doctors by patients wanting to stop smoking.

Similarly, it reports that an 0800 free telephone number, given in adverts for its anti-herpes drug, Valtrex, has so far received 600,000 callers, 63 per cent of whom have said that they planned to visit their doctors after calling the number.

IMS reports a 20 per cent rise in US sales of antidepressants and a 28 per cent increase in sales of tranquillisers and sedatives in the 12 months to March this year – a $1.7bn rise in total.

But doctors are worried about the impact of advertising. In a survey of 3,000 doctors published last month 65 per cent of doctors wanted the direct advertising decreased or discontinued.

Many were seeing an increase in self-diagnosis by patients, which in many cases was not correct and required extra surgery time to explain why. Patient requests also conflicted with the prescribing guidelines issued by managed care programmes which pay for patients' treatments. As a result, doctors had to choose between upsetting the patient by refusing the drug, and risked being blacklisted by a managed care programme.

The future of TV advertising rests on whether the Food and Drug Administration believes it is increasing the nation's health. If it decides the consumer is suffering, it will move to reimpose the ban.

Top 10 spenders
Pharmaceutical company expenditure on advertising prescription drugs to US consumers in 1997 ($m)

Glaxo Wellcome	155.6
Merck	122.0
Bristol-Myers Squibb	107.3
Pfizer	90.0
Schering-Plough	70.9
Hoechst	64.7
Johnson & Johnson	58.5
American Home Products	42.3
Zeneca	27.5
Eli Lilly	25.6

Source: Competitive Media Reporting and Publishers Information Bureau

Panamanian president in fight for a second shot at the title

Opposition says that the country will become nothing more than a civil dictatorship if he wins. **James Wilson** reports

Carlos Menem's decision not to seek a third term as Argentina's president has resounded particularly loudly at the other end of the continent, where another fight for the right to be re-elected is soon to reach a climax.

To opposition cries that Panama will become nothing more than a civil dictatorship if he wins, President Ernesto Pérez Balladares is seeking another term as the country's president, a move that requires changes in the constitution to be approved by the national assembly and by a national referendum.

The necessary legislation has already been voted through by his loyal majority in the assembly.

Now the referendum on August 30 is all that stands between Mr Pérez Balladares and another shot at the presidency in May next year.

The outcome will be awaited with particular interest given the turning point being reached in Panama's history.

The winner of the next election – and Mr Pérez Balladares will be a firm favourite if he wins the right to stand again – will be in charge when the US relinquishes control of the Panama Canal on December 31 1999.

Taking their cue from Mr Menem's decision, Mr Pérez Balladares' political opponents have called for him to desist from his bid.

But the president's allies say two consecutive terms, as Mr Menem has had, is a sensible option and want Panama's citizens to be given the chance to re-elect their president if they so wish.

Re-election is a vexed issue in Latin America, where – given past experience of all kinds of dictators who became hard to remove – many countries have safeguards built into the constitution to stop presidents becoming too entrenched.

In Panama, where 21 years of military rule only ended in 1989 with the US invasion that toppled Manuel Noriega, the idea of a long spell of power is particularly controversial.

"The president here is not like in the US, or a European prime minister. Here they are omnipotent," said Victor Juliao, secretary-general of the Arnulfista party, the largest in the opposition coalition.

Supporters of re-election contend that a president needs to be allowed time to see through his political programme, and that there is nothing to be gained from imposing a change of leader.

Francisco Sánchez Cárdenas, the housing minister and one of the president's closest political allies, said: "When we see countries that are much more advanced, they are those where the concept of re-election is ingrained in society. It implies that a president who has had a good programme can fulfil it.

"In our countries where there are big things to try to change, doing it in four or five years is impossible. There is a saying – 'Every teacher has his own textbook'. Every time a new government arrives it begins a new process, and that affects the country's development."

The Pérez Balladares administration is seen as investor-friendly, having opened the economy with tariff reductions and privatisations in ports and telecoms.

Water and electricity companies are to follow. Gross domestic product grew 4.4 per cent last year and is forecast to be around 5 per cent this year, with inflation of less than 2 per cent.

Foreign debt has also been tackled, with well-received bond issues last year and this.

Joseph Petry, head of Latin American sovereign analysis for Citicorp Securities in New York, told an audience in Panama recently that a vote against re-election in August's referendum would increase uncertainty and call into question the reform process.

The opposition, while keen to say it is not hostile to foreign investment, contends that state assets have been sold cheaply and without benefiting the mass of the people. Farmers are angry over big tariff cuts that have left them struggling to compete with imported produce. Unemployment is inching downwards but one in three people lives in poverty, according to a study by the UN and other multilateral organisations.

However, opinion polls indicate a majority content with Mr Pérez Balladares and his government.

Given continued uncertainty about the opposition coalition, and the fact that the president was elected in 1989 with only 33 per cent of the vote, the August referendum will be a higher hurdle for Mr Pérez Balladares to jump on the way to a second term than the 1999 election.

Ernesto Perez Balladares: seen as investor-friendly, having opened up Panama's economy AP

Autonomy for bank regulator in Mexico

By Henry Tricks in Mexico City

The Mexican government has proposed full autonomy for the country's banking regulator, which it had previously intended to incorporate into the central bank, José Angel Gurría, finance minister, said yesterday.

The move to grant full independence to the National Banking and Securities Commission follows mounting pressure from Mexico's Congress.

The original proposal to change the commission's status was part of a financial reform bill now stalled in Congress because of opposition to the government absorbing $65bn in obligations incurred in bailing out the banking system after the 1995 economic crisis.

The rescue package has clouded the future of the banking industry. The finance ministry had initially proposed ceding its control of the commission to Banco de Mexico, the autonomous central bank, in March. But legislators, who have attacked the commission's and the bank's role in the bailout, wanted to make it more independent. Mr Gurría said a consensus was struck.

There have been few signs of compromise, however, in the bigger legislative battle over Fobaproa, the bank insurance fund that has spent some 14 per cent of Mexico's gross domestic product rescuing the banks.

Mr Gurría said bank secrecy laws prevented him from bowing to a demand by opposition parties in Congress for names of businesses and their owners whose debts were acquired by Fobaproa as part of the rescue.

On Monday the leftwing Party of the Democratic Revolution issued names of 310 large debtors it alleged had debts in the Fobaproa scheme.

Kevorkian lawyer wins primary

By Nancy Dunne in Washington

A wealthy, flamboyant lawyer who represents the country's most famous "suicide doctor" was the apparent winner of the Democratic gubernatorial primary in Michigan yesterday and is now set to face the Republican governor, John Engler, in November's election.

Geoffrey Fieger is known principally as Dr Jack Kevorkian's lawyer and has convinced three juries not to indict the doctor for helping severely ill patients kill themselves. He has drawn national attention for his theatrical tactics and attacking campaign style.

In announcing his narrow victory Mr Fieger said he was not "as outrageous as I'm represented in the media". But Mr Engler's spokesman went on the offensive, labelling Mr Fieger as "nuts" and saying that Michigan citizens would not approve of his "profanity and abuse".

Mr Fieger, the son of a civil rights activist, will have a tough electoral battle. He outraged many Democrats when he said that for too long the party had "acted like ... wimps and oatmeal". Democrats ought not to be ashamed of their positions and ideals, he said. "Let's take this government back from these wolves in conservative clothing."

He has regularly insulted the Republican governor, calling him "a political hack who has never had a job in his life and doesn't have a singular idea in his skull". Mr Fieger has also promised "real tax reduction, not tax shifting", saying "Republicans have reduced taxes on the rich and hid the tax increases on the middle class". But he is no big-government liberal. He said taxes should only support "the common good", such as roads, national security and education.

Canadian watchdog beefed up to fight market abuses

Securities regulator pledges 'appropriate and adequate' investor protection, writes **Edward Alden**

While Canada represents less than two per cent of the world's capital markets it is an international centre for financing resource companies – unfortunately a sector that seems particularly prone to market abuse.

The new chairman of Canada's top securities regulation body says he plans to increase staffing and beef up enforcement to restore confidence in the country's securities markets, after a series of high-profile scandals.

The reputation of Canadian stock exchanges was badly hurt last year with the collapse of Bre-X Minerals, a C$6bn (US$4bn) gold exploration company that was revealed to have perpetrated a huge fraud.

But Bre-X has not been the only black mark on the Canadian exchanges. The Toronto Stock Exchange last month levied a record C$4m fine against First Marathon, one of the larger independent brokerage houses, over conflicts of interest involving employees who were both major shareholders and promoters of a junior mining company called Cartaway Resources. The stock crashed from C$26 to C$2 in 1996.

And next week hearings are scheduled to begin on YBM Magnex International, a C$900m company on TSE's blue-chip 300 list until it was suspended in May for failing to file an audited 1997 annual report. The magnet manufacturer was investigated for alleged connections with Russian organised crime prior to its listing on the TSE, and the Ontario Securities Commission ignored warnings from experts last year that many of YBM's sales claims were suspect.

David Brown, chairman of the OSC since April, said in a recent interview he wants to "demonstrate to the world that Canada is indeed a safe place to invest, that the markets are fair and there is an appropriate and adequate amount of investor protection."

Tougher monitoring and enforcement would not necessarily end such abuses. But the OSC, which oversees the Toronto exchange that handles about four-fifths of Canada's capital market activity, has struggled this decade with inadequate funding, too few staff and high turnover.

Brenda Eprile, who left last year as executive director, said the commission has about two-thirds of the staff it needs to do its work as thoroughly as the US Securities and Exchange Commission.

The OSC, for instance, does virtually no monitoring of disclosures in the huge secondary markets, she said.

Mr Brown is hoping to reverse that situation. As a result of action taken by his predecessors, the commission has been put on a self-funding basis, freed from the whims of a provincial government that siphoned a large sum annually from the OSC's revenues, about half the agency's budget. One of his first steps will be to add about 100 people to the commission's staff of 235, many of those dedicated to enforcement.

Ontario Securities Commission chief David Brown Peter Redman

The commission has been too short of staff to prosecute cases and at the same time monitor companies adequately to uncover violations, he said.

The OSC is also requiring the largely unregulated Canadian mutual funds industry, which has grown from just C$24bn in assets in 1990 to more than C$320bn today, to establish a self-regulating organisation that would set standards for all mutual fund companies. Last week the OSC unveiled tougher rules for disclosure in mutual fund prospectuses.

Mr Brown said he was considering asking the provincial government for the power to fine securities-law violators directly rather than having to pursue civil and criminal remedies in the courts.

But these measures may still fall short of what is needed.

Adrian du Plessis, an independent stock market watchdog, says the root problem with Canadian securities regulation is not underfunding but the lack of sufficient due diligence by regulators to ferret out potential problems before they blow up into public scandals. In all the major cases, regulators have responded only after the abuses were first revealed in the media.

Edward Waltzer, a Toronto securities lawyer and former OSC chairman, said Canada's regulatory system will remain backward as long as there is no national regulator. Despite Canada's small market, there are separate exchanges and regulators in four provinces, each of which jealously guards its jurisdiction.

"Sooner or later the federal government is going to have to get involved because markets are global, not provincial or even national," says Mr Waltzer.

Certainly Mr Brown is aware of the dangers of inadequate securities regulation. The Vancouver Stock Exchange in British Columbia acquired in the late 1980s an unwanted reputation as the scam capital of North America after a series of penny stock frauds.

Despite determined efforts by the British Columbia Securities Commission to erase that legacy, investors have sought out other markets. The Vancouver index last week hit an all-time low of less than 500 points, down from more than 2000 a decade ago.

NEWS DIGEST

SECURITIES AND EXCHANGE COMMISSION

Sony fined $1m for failing to disclose film losses

The Securities and Exchange Commission yesterday fined Sony Corporation $1m for failing to disclose losses at its Hollywood film subsidiary in 1994. The SEC further ordered the Japanese consumer electronics group to appoint an independent auditor of its accounts this year to review its presentation of mergers and acquisitions.

Sony was accused of hiding the extent of losses at Sony Pictures, in the four months before its 1994 writedown of $2.7bn of goodwill. It was also accused of failing to reveal how the Hollywood losses would push the group's consolidated results into the red. At the time of the write-off, Sony reported a loss of Y279.9bn ($1.92bn) in the first half of 1994, against a pre-tax profit of Y56.6bn for the same period in 1993.

The SEC said Sony had filed "inadequate disclosures", and had merged results of Sony Pictures with its profitable music business under a single "entertainment" heading. The result was "obscuring" of the losses at Sony Pictures, the SEC said yesterday.

Sony agreed to the $1m fine and accepted the terms of a cease-and-desist order, which prevents a repeat of the lack of disclosure. **Richard Wolffe, Washington**

HOLOCAUST VICTIMS

Zurich Insurance to advertise

Zurich Insurance will today launch an advertising campaign in the US appealing for relatives of Holocaust victims to claim on life assurance policies. The move was an attempt to avoid public relations mistakes made by the Swiss banks, which have already suffered bad publicity over how they treated Holocaust survivors, and may face sanctions from states and city councils from next month.

Zurich, which has extensive interests in the US following recent acquisitions, is publishing advertisements in a range of newspapers which are widely read by the Jewish community. This will ask anyone who thinks they may be the beneficiary of a Zurich Life policy from the war era to phone a specially established toll-free telephone number. US lawyers have already embarked on a class action lawsuit against several European insurers, including Generali of Italy and Allianz of Germany as well as Zurich, saying they did not pay out life policy benefits to the relatives of Holocaust victims. **John Authers, New York**

COLOMBIA GUERRILLAS

Attacks leave 70 dead

Colombia's leftwing guerrillas have launched a series of attacks across the country as a parting gesture to the administration of President Ernesto Samper, whose term in office ends on Friday. The offensive, which began earlier this week, has so far left about 70 soldiers and police dead. Bad weather and poor communications have frustrated attempts to discover the whereabouts of a further 290 members of Colombia's armed forces.

But Andrés Pastrana, incoming president, said the attacks in no way jeopardised the country's nascent peace process. This was the guerrillas' "farewell to the government, not the welcoming of mine," he said. The outgoing government has consistently stumbled in attempts to persuade the guerrilla forces to negotiate peace.
Adam Thomson, Bogotá

SUPPORT FOR PRESIDENT

Democrats rally round Clinton

Democrats yesterday rallied round President Bill Clinton yesterday, ignoring the allegations of sex and perjury at the White House that Republicans believe could trigger impeachment hearings.

After a closed door caucus meeting at the House of Representatives with Mr Clinton and vice-president Al Gore, party leaders sought to play down charges that the president had an affair with Monica Lewinsky, a former White House worker, insisting the public was more interested in broader issues.

Richard Gephardt, House minority leader and a possible candidate for the 2000 presidential election, said the Lewinsky matter was not even brought up during the meeting. He said that discussion focused on "kitchen table" issues the party hoped to raise in November's congressional elections. **Mark Suzman, Washington**

GULF WAR VETERANS

Uranium 'not cause of illness'

Exposure to depleted uranium contained in shells fired during the Gulf war apparently was not the cause of illnesses suffered by some veterans, the US Defence Department said this week. The Pentagon said while the substance "can pose a chemical toxicity and radiological hazard under specific conditions, the available evidence does not support claims that depleted uranium caused or is causing the undiagnosed illnesses some Gulf war veterans are experiencing". **AP, Washington**

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INWARD INVESTMENT HYUNDAI SAYS TALKS WITH INTEL OVER SCOTTISH FACTORY HAVE ENDED

Hopes fade for completion of chip plant

Financial Times Reporters in Seoul and Edinburgh

Hopes for the completion of Hyundai Electronics' semiconductor plant in Scotland suffered a setback yesterday when the company said talks had broken off with Intel, the US semiconductor company, on a $1.15bn joint venture to rescue the project.

In June Hyundai postponed indefinitely the completion of its memory chip plant at Dunfermline, central Scotland, blaming overcapacity in the market and sharp falls in prices. A prime reason was the difficulty Hyundai has had raising overseas capital because of its poor credit ratings. The rating for Hyundai Electronic's US subsidiary was recently downgraded by Standard & Poor's, the US credit agency, to B, five notches below investment grade.

Hyundai has sought to save the Scottish project through a joint venture with other chipmakers and it expressed hope yesterday that a partner might still be found. It is understood to have talked to a number of companies, including Phillips and Motorola.

The problems of the memory chip market were underlined last week by the announcement from Siemens that it was closing its semiconductor plant in north-east England only two years after it had opened.

Hyundai has already abandoned plans to produce 64-megabit memory chips at the Scottish plant because they would be out of date by the time the facility began operation. Instead, it will focus on the production of next-generation 256-megabit chips.

Intel refused yesterday to confirm that it had been talking to Hyundai about the Scottish plant, though it said that it is designed to make memory chips while Intel specialises in microprocessors, the central processor of personal computers. But it acknowledged that the Dunfermline plant, whose structure is largely complete, could be adapted to a different type of production.

Intel has held discussions with all three of South Korea's troubled chipmakers on possible capital investments in overseas projects, but none of the negotiations have so far proved successful because of differences over price and ownership control.

Rachel Squire, a Dunfermline Labour MP, said hopes were fading for opening the plant. "This is a great shame, but I think it is now time to face the realities. The semiconductor industry is a very volatile one and given that and the difficulties faced by companies in Asia we have to face the task of finding another use for the empty plant," she said.

Locate in Scotland, the agency which attracted Hyundai to Scotland, said it remained optimistic. Neil Martin, head of semiconductors, said: "We have a state-of-the-art site and a fully trained workforce. This type of technology is very expensive and a joint venture is the only way to do it."

Armed opponents of peace accord elude pursuers

After a series of attacks, officials think the breakaway republicans may be forming alliances. **John Murray Brown** reports

Saturday's bomb attack in the small Northern Ireland market town of Banbridge was evidence of a new-found strength in the self-proclaimed "real IRA".

The attack – using a 240kg car bomb left in a busy shopping area – signalled a new operational capability within the group. The "real IRA" rejects the April peace agreement accepted by the mainstream Irish Republican Army and Sinn Féin, its political wing.

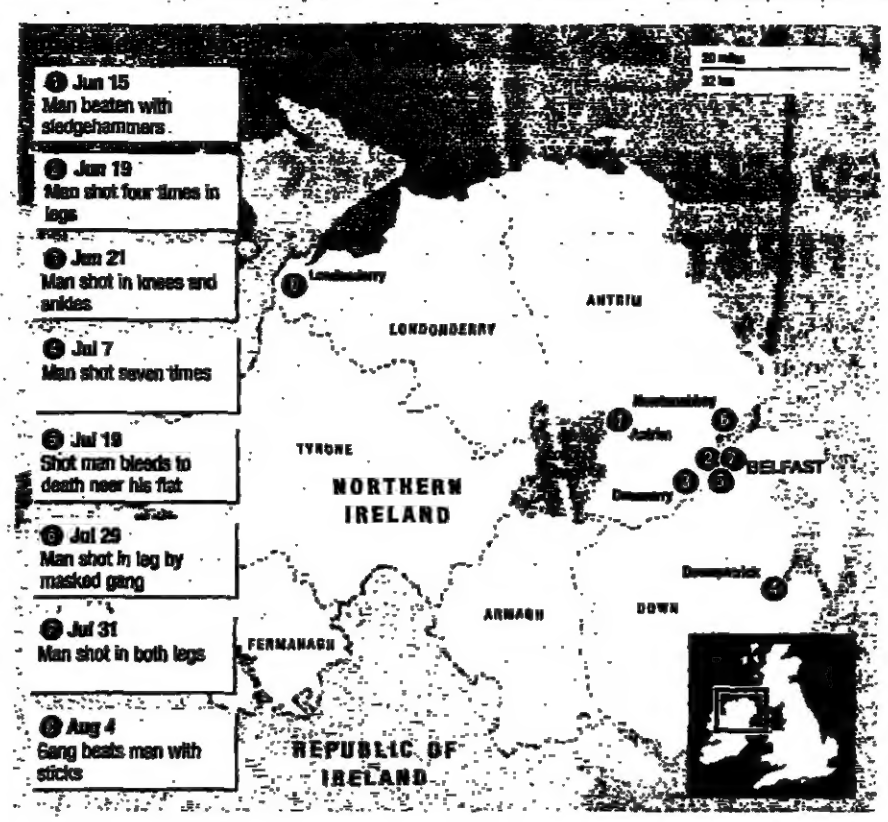
There had been signs that the Garda, the Republic of Ireland police force, was on top of the problem. There had been a significant bomb seizure in Howth, north of Dublin, and several bombing missions had been intercepted. Police had also had a shoot-out with raiders at a hotel south of Dublin, in which one gang member was shot. There were suggestions that the mainstream IRA might even be tipping off the Irish authorities.

The Garda remain confident they know the identity of the main organiser – a former IRA quartermaster linked with Bernadette McKevitt, sister of Bobby Sands, the IRA hunger striker. Sands died in prison in 1981 and became an IRA folk hero.

Ms Sands denies her political group – the self-styled 32 County Sovereignty Committee, which demands immediate Irish unity and an end to British rule – has any links with the "real IRA". But she does not hide her contempt for the Sinn Féin peace strategy.

"I can't see what they are doing as being compatible with what Bobby died for," she says, tracing the history of the struggle from Bloody Sunday, when civil liberties protesters were shot dead by British soldiers, to the former policy of internment, to her brother's death, which inspired a generation of republicans.

But a bigger worry for the security forces is the growing evidence that the "real IRA", while recruiting disgruntled IRA members, may also be linking more formally with the Continuity IRA and the Irish National Liberation Army – both of which believe any settlement which implicitly accepts Irish partition and the re-establishment of a Northern Ireland parliament is a betrayal of republican principles.



The continuing threat means a heavy security presence is likely to be maintained in the border area

The INLA is linked to the Irish Republican Socialist party.

The continuing threat means the UK government is likely to have to maintain a heavy security presence in the border area although some frontier checkpoints – which police say were never an effective intelligence tool – will continue to be dismantled.

But once the Northern Ireland assembly has opened, the UK government is expected to give the go-ahead for a more robust security response by the army and the police.

Any dissident action has the capacity to embarrass the Sinn Féin leadership and to provide encouragement to republicans who have misgivings about the accord. In addition, Sinn Féin's obstinate refusal to condemn the Banbridge attack has added to unionist unease.

Gerry Adams, the Sinn Féin president, said yesterday "the war will be over when all those engaged in war – and some are still engaging in war – stop". He was responding to calls to declare the war was over from David Ervine, a leading spokesman for the Progressive Unionist party, the small political wing of the outlawed Ulster Volunteer Force.

Asian car groups attack 'grey' imports

By John Griffiths in London

Official importers of Mitsubishi, Subaru and other Japanese and Asian-produced vehicles are taking vigorous action to protect their businesses against a rising tide of cheap "grey" car imports to the UK. Such imports are expected to total more than 60,000 this year as the result of Far East currency depreciation.

Grey imports accounted for about 30,000 of the UK's 2m new car sales last year but official registration statistics show that they have been running at more than double this rate during the current year.

International Motors, which controls the Subaru, Isuzu and Ssangyong import franchises, has already sacked one Subaru dealer group for bringing in such imports – but is now facing the creation of a 20-strong "alternative" servicing network by the group, David Hendry Cars.

Mitsubishi Motors, which sold 23,000 cars in the UK last year and which is also being hit badly by the imports, has told all its dealers to impose sharp increases in the price of parts and servicing to anyone bringing in unofficially-imported cars for repair.

"We should continue to be incredibly polite to customers who buy spurious vehicles, but charge them for the privilege of ignoring our contractual rights as the sole UK importer," the company has said in a confidential letter to dealers.

Mitsubishi, International Motors, Mazda Cars and other "official" importers are issuing warnings that many of the cars imported may not comply with European safety or environmental standards – and that while cars may appear similar to "officially" imported models, mechanical specification may vary, making replacement parts difficult or very expensive to obtain.

The warnings are being rejected as exaggerated by independent traders handling the grey imports.

But the official importers' stance is being backed formally by the Retail Motor Industry Federation, representing most of the UK's franchised retail motor trade. "A large proportion of these cars come from Japan where cars may appear identical to UK specified cars, but the differences will almost always lie under the bonnet," it said.

Central bank faces tough interest rates call

By Richard Adams in London

The monetary policy committee of the Bank of England, the UK central bank, will face a difficult decision today when it meets to fix interest rates. Official figures yesterday showed growth in manufacturing and services was not as weak as previous data suggested.

Expectaions are divided over whether rates will be increased from 7.5 per cent, or left on hold. The official figures showed the manufacturing sector grew fractionally in the second quarter after falling in the previous two. Analysts expect this emergence from technical recession to be short lived.

The Office for National Statistics said manufacturing output in the three months to June was 0.1 per cent up on the previous three months. It revised up its estimates of output in April and May. In June alone factory output was flat.

Michael Saunders of Salomon Smith Barney investment bank – one of the few City of London analysts predicting a rate rise today – said the revisions brought the official data into line with past survey evidence which has been more positive.

He said the revised data suggested growth in the whole economy during the second quarter could also be revised up, from 0.5 per cent to 0.6 per cent.

But the National Institute of Economic and Social Research said there was not likely to be any "sharp revision" to the growth estimate. The NIESR's latest projection of growth in the three months to July is just 0.4 per cent. "The estimates confirm the view that the economy is growing at or just under 2 per cent per annum and do not indicate that a recession has started," the NIESR said.

Manufacturers have been increasingly vocal about interest rates, saying that the slowing economy has put many companies under pressure. But yesterday's figures may mean that the worst is yet to come for their sector.

Samuel Brittan, Page 14
Editorial Comment, Page 15

G8 fears 2000 bomb impact on poor nations

By Christopher Price in London

The ability of developing countris to tackle the year 2000 computer problem has emerged as a prime concern among he leading industrial nations.

Ther is particular concern among officials of the Group of Eight and the European Commission – about the porer countries' nuclear indusries.

Confidential minutes of a meeting in London in June, a month after the G8 summit in England, also reveal worries over the shortage of skilled labour to reprogram the millions of older computers worldwide unable to recognise the 2000 year date change.

But a request from the UK for other countries to copy its example, by donating £10m ($16.5m) to the World Bank to assist developing countries, was rejected by Germany and appeared to go unheeded by the other G8 officials.

The UK, which chaired the meeting, produced a report on the global readiness of governments and businesses to tackle the "millennium bomb". It found that while big companies and organisations in the developed world appeared to be aware of the situation, smaller businesses were less well prepared. The problem was more acute in the developing world, where "little was happening", the report said.

It added that governments "generally underestimated the amount of remedial work required".

The report highlighted the lack of preparations in India and Pakistan, eastern Europe and south and central America. The global nuclear and defence industries were in need of careful monitoring. The report said satisfactory steps were being taken to make sure the international transport, telecommunications, finance and energy markets would be compliant.

Details of the meeting appeared in today's Computer Weekly, a UK trade publication.

NEWS DIGEST

EXECUTIVE PAY

Top directors average 17% increase in remuneration

Senior directors in the UK's 350 biggest listed companies have enjoyed average increases of 17.8 per cent in their remuneration packages during the past financial year, according to a survey. The median improvement in total remuneration was 10.6 per cent, says the annual study by Incomes Data Services in association with Arthur Andersen, the consultants. Basic median pay rises totalled 9.1 per cent for chief executives with an 11.8 per cent average growth. Nearly one in 10 chief executives received basic salary increases of 25 per cent or more. As many as 49 of the nearly 2,000 directors survey each received more than £1m ($1.6m) in total remuneration.

Trade union leaders reacted angrily. "These figures will reignite the whole debate over fat-cat boardroom salaries," said John Edmonds, the GMB union's general secretary, yesterday. "How can low-paid workers in the public sector be expected to settle for a meagre 3 per cent when irresponsible employers are taking more than three times that amount and then lecturing their workforces on the wisdom of low pay? Hypocrisy is alive and well in British boardrooms."

Annual bonus pay and individual incentive schemes are giving an extra and substantial boost to chief executive salary packages. The figures reveal the median value of annual bonuses is particularly high for senior executives in the FTSE top 100 companies, totalling over £143,000 for chief executives. **Robert Taylor, London**

SOCCER 'SUPER LEAGUE'

Top clubs confirm approaches

Manchester United and Arsenal yesterday ended two weeks of denials and prevarication by confirming that they had both received approaches about joining a new mid-week European soccer "super league". But England's two top clubs stressed their continuing commitment to the Premier League and domestic competitions. They also promised not to make any decision without consulting the sport's authorities first. Their statements, echoed by similar comments from Ajax in the Netherlands, followed weeks of speculation. The planned competition, which would operate independently of Uefa, European soccer's governing body, has been presented to Europe's top clubs by Media Partners, a Milan-based marketing consultancy.

Some observers believe the big clubs in England and on the continent are only using the threat of a breakaway league to put pressure on Uefa to give them more control over the Champions League and a bigger share of its revenues. Yesterday, Alex Ferguson, manager of Manchester United, said he believed a super league was still "10 years away". **Patrick Harverson, London**

Super League, Page 18

COASTAL EROSION

Abandon land, say MPs

The government should admit defeat in the battle against coastal erosion and abandon low-lying farmland to the sea, the agriculture committee of the House of Commons said yesterday. It urged the government "to seek a peaceful accommodation" with the sea rather than spend large sums of money on defences that often cause more problems than they solve. The report was criticised by farmers and supported by environmental groups. The committee said that given the forecast rise in sea level and the age of the existing defences, the current practice was unsustainable. "It is far better to anticipate and plan a policy of managed realignment than to suffer the consequences of a deluded belief that we can maintain indefinitely an unbreachable Maginot Line of towering sea walls and flood defences," it said.

Although the threatened land is often of high quality, the MPs said Britain no longer needed to be self-sufficient in food and was spending heavily on encouraging overproduction. **David Wighton and Maggie Urry, London**

LANDSCAPE SALE

Appeal launched for mountain

The National Trust, a charity that owns some of the finest historic houses and landscapes in England and Wales, yesterday launched a £4m ($6.6m) appeal to save Mount Snowdon in north Wales, part of which has been put on sale. Snowdon, at 1,085m, is the highest peak in the UK outside Scotland. The trust's offer of "over £3m" – the highest of the four final bids – is thought to be the most paid for a piece of open countryside in the trust's 103-year history. Sir Anthony Hopkins, the Welsh-born film actor, has been appointed president of the appeal.

"We now have 100 days to raise the funds," he said. "There is no time to lose and every contribution will count. Snowdon is an important part of our Welsh heritage. Together we must ensure its future for everyone to enjoy." **Juliette Jowit, Birmingham**

Former minister explains how to pay for the future

Welfare reformer Frank Field gave the Financial Times his first interview since resigning from the government. **Liam Halligan** and **Robert Peston** spoke to him about the creaking pensions system

Frank Field, the minister for welfare reform appointed last year to "think the unthinkable", resigned from the government last week.

He quit at the same time as Harriet Harman, his immediate boss, was sacked by Tony Blair, the prime minister, from the cabinet post of chief social security minister in a reshuffle.

Mr Field's pension proposals, currently being costed by the government actuary's department, have already been presented to ministers.

He told the FT that the government has in effect made the decision to introduce a system of compulsory saving for second pensions. The announcement last month by Gordon Brown, chancellor of the exchequer, of a minimum income guarantee for pensioners meant the contentious issue had been "settled", he added.

This pre-emptive strike, ahead of a government discussion paper on pensions, may further infuriate ministers who have been campaigning to undermine Mr Field's credibility.

His latest thoughts represent a significant development on *How to Pay for the Future* – the influential paper he wrote in opposition – calling for the refinancing of the state health service from individual contributions, "commensurate" income tax cuts and the establishment of state-controlled pension institutions.

A state pension has existed for several generations funded through what is, essentially, a tax on current employers and employees. But the age profile of the population means that the cost of this pension does not appear sustainable. Mr Blair gave Mr Field the "unthinkable" mission of coming up with an alternative.

Mr Field said his views had changed considerably since the Labour party took power in May last year – a result of being in office and of submissions from the pensions industry. "Although I was appointed to think the unthinkable, a lot of that was done before the election and has already become mainstream Labour party policy," he said. He was referring to his 1993 pamphlet calling for universal second pensions, with a significant increase in private sector coverage.

This year he has devised a less ambitious scheme involving a partnership between government and new mutual providers.

Universal "stakeholder" second-tier pensions would be provided, he said, partly on the current pay-as-you-go (PAYG) basis, and partly from policyholders' compulsory contributions to funded investment-linked schemes.

"Each person should have their individual funded pot, but there's a lot of sense in splitting risks between PAYG and funded," he said, underlining the importance of counterbalancing asset price cycles which could undermine wholly-funded compulsory pensions.

Labour's "radical intent should be judged on whether they introduce a stakeholder pension scheme", he said. His hybrid scheme – involving mandatory income-related contributions for those in work and flat-rate payments for the self-employed – would offer a "modest" pension guarantee.

"It should be grand enough to make a major difference to the poor, but not so grand that it starts to undermine other forms of pension provision," he said. "We might be thinking, in current terms, of twice the old-age retirement pension."

The regulatory problems that have bedevilled the pensions industry would disappear, Mr Field argued, because there would only be a single stakeholder product with investment strategies developed collectively by groups of providers.

But he is not prepared to countenance the management of the new scheme by private sector providers, which are still suffering criticism for mis-selling pensions in the late 1980s and early 1990s.


Frank Field: less scope for reforming, but more opportunities for thinking — Ashley Ashwood

Only mutual groups would be allowed to manage the new funds, but he envisages big private sector companies such as Prudential and Legal & General setting up new mutual offshoots to win business, as would trade unions.

"You invite industry players to become approved suppliers by creating their own mutuals," he said. "Once they have that badge of approval, it's in their interests to run the best scheme they can" and then cross-sell other products from the parent company.

Mr Field says the government would lay down maximum charges, insist profits are channelled into dividends, and forbid transfers of funds to the parent company from its mutual arm.

He said the rate of compulsory contributions – "certainly well below 3 per cent" – would be decided by actuaries. "Given their natural conservatism, the chances are you would soon have a surplus building up, which could either be used for pension rises or contribution cuts."

EVER

BILLION' OF

ASSET BACKED SECURITIES
$11.82 BILLION
18 ISSUES

Arcadia Financial Ltd
Arcadia Automobile Receivables Trust, 1998-B
$550,000,000
Automobile Receivables-Backed Notes
Lead Manager: BancAmerica Robertson Stephens

AmeriCredit Financial Services, Inc.
AmeriCredit Automobile Receivables Trust 1998-B
$525,000,000
Asset Backed Notes
Co-Manager: BancAmerica Robertson Stephens

Navistar Financial 1998-A Owner Trust
$500,864,370
Asset Backed Notes
Co-Manager: BancAmerica Robertson Stephens

Auto Leasing Investors 1997 L.L.C.
$394,685,000
Automobile Lease Asset Backed Notes
Co-Lead Manager: BancAmerica Robertson Stephens

Hyundai Auto Receivables Trust 1998-A
$300,150,000
Asset Backed Notes
Co-Manager: BancAmerica Robertson Stephens

ASSET SECURITIZATION
$5.60 BILLION
43 TRANSACTIONS

Sanwa Business Credit Corporation
$1,300,000,000
Lease and Loan Securitization Facility
Structurer and Arranger: BancAmerica Robertson Stephens
Administrative Agent: Bank of America NT&SA

KOMATSU
Komatsu Funding Corporation
$404,000,000
Equipment Loan Securitization
Structurer and Arranger: BancAmerica Robertson Stephens
Administrative Agent: Bank of America NT&SA

KOMATSU
Komatsu Funding Corporation
$325,000,000
Wholesale Floorplan Securitization
Structurer and Arranger: BancAmerica Robertson Stephens
Administrative Agent: Bank of America NT&SA

WORLD OMNI
$400,000,000
Interim Financing
Structurer: BancAmerica Robertson Stephens

AmeriServe
AmeriServe Food Distribution, Inc.
$125,000,000
Trade Receivables Securitization to finance acquisition of ProSource, Inc.
Structurer and Arranger: BancAmerica Robertson Stephens
Administrative Agent: Bank of America NT&SA

INTERNATIONAL CAPITAL RAISING℠
$10.74 BILLION
19 TRANSACTIONS

Fenaligas
$350,000,000
Senior Notes Due 2005-2013
Private Placement Arranger: BancAmerica Robertson Stephens

NEWBRIDGE
$225,000,000
Senior Notes Due 2003
Private Placement Arranger: BancAmerica Robertson Stephens

PERTH INTERNATIONAL AIRPORT
$150,000,000
Senior Secured Notes Due 2010
Rule 144A Issue Lead Manager: BancAmerica Robertson Stephens

McCain
$150,000,000
Senior Notes Due 2008-2018
Private Placement Arranger: BancAmerica Robertson Stephens

VNESHECONOMBANK
$121,853,000
Senior Exim Guaranteed Notes Due 2003
Rule 144A Issue Sole Manager: BancAmerica Robertson Stephens

HIGH YIELD
$5.98 BILLION
28 TRANSACTIONS

UNITED ARTISTS Theatres
$225,000,000
9 3/4% Senior Subordinated Notes Due 2008
Co-Manager: BancAmerica Robertson Stephens

CB RICHARD ELLIS SERVICES, INC.
$175,000,000
8 7/8% Senior Subordinated Notes Due 2006
Joint Book-Running Manager: BancAmerica Robertson Stephens

Hard Rock Hotel
$120,000,000
9 1/4% Senior Subordinated Notes Due 2005
Co-Manager: BancAmerica Robertson Stephens

SCHULER HOMES, INC.
$100,000,000
9% Senior Notes Due 2008
Lead Manager: BancAmerica Robertson Stephens

OSHKOSH
$100,000,000
8 3/4% Senior Subordinated Notes Due 2008
Sole Manager: BancAmerica Robertson Stephens

PRIVATE PLACEMENTS
$5.00 BILLION
119 SOLE/LEAD MANAGED TRANSACTIONS

MassMutual High Yield Partners II LLC
$378,000,000
Senior and Subordinated Notes Due 2004-2006
$114,000,000
Units of Membership Interest
Sole Agent: BancAmerica Robertson Stephens

Louisiana-Pacific Corporation
LPSPV-2, LLC [illegible]
$348,600,000
Senior Notes Due 2006-2018
Sole Agent: BancAmerica Robertson Stephens

Quaker Coal Company, Inc.
$110,000,000
Senior Notes Due 2006
Sole Agent: BancAmerica Robertson Stephens

ROBERT MONDAVI
$95,000,000
Senior Notes Due 2003
Sole Agent: BancAmerica Robertson Stephens

CNC CONTAINERS
$30,000,000
Subordinated Notes Due 2004
Sole Agent: BancAmerica Robertson Stephens

MUNICIPAL SECURITIES - TAX EXEMPT BONDS
$4.43 BILLION
110 TRANSACTIONS

SDCS
San Diego Unified School District
$130,000,000
Tax and Revenue Anticipation Notes
Senior Manager: BancAmerica Robertson Stephens

GONZAGA UNIVERSITY
$41,830,000
Tax-Exempt Revenue Bonds
Sole Senior Manager: BancAmerica Robertson Stephens

GP
Georgia-Pacific Corporation
$40,300,000
5.60% Industrial Development Refunding Revenue Bonds
Sole Senior Manager: BancAmerica Robertson Stephens

WM
WASTE MANAGEMENT, INC.
$21,830,000
Solid Waste Disposal Refunding Revenue Bonds
Sole Senior Manager: BancAmerica Robertson Stephens

County of Santa Barbara
$20,930,000
Refunding Certificates of Participation
Sole Senior Manager: BancAmerica Robertson Stephens

STRUCTURED TRADE FINANCE℠
$3.50 BILLION
41 TRANSACTIONS

Meizhou Wan Power Project
US$526,391,000
Project Financing Involving Asia Development Bank, CESCE (Spain), & COFACE (France)
Arranger: Bank of America

Central Puerto
US$155,987,735
Buenos Aires, Argentina
Eximbank Guaranteed Loan
Arranger: Bank of America NT&SA

Central Puerto
US$60,000,000
Buenos Aires, Argentina
Syndicated Term Loan
Arranger: BancAmerica Robertson Stephens

PT Pabrik Kertas Tjiwi Kimia Tbk
US$80,605,762
Term Loan Facilities Suported by US Eximbank, EKN (Sweden), & Hermes (Germany)
Joint Arranger and Agent: Bank of America NT&SA

PT Indah Kiat Pulp & Paper Company Tbk
US$79,661,031
Term Loan Facilities Supported by US Eximbank, EKN (Sweden), & Hermes (Germany)
Joint Arranger and Agent: Bank of America NT&SA

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INFORMATION TECHNOLOGY ELECTRONIC COMMERCE

At last: a DIY web store kit in a box

Simple, inexpensive programs that eliminate the headaches and frustrations of building a web store are now on the market, writes **Geoff Nairn**

In an age of international *brands and chain stores,* Europe's smaller retailers have a hard time standing out on the high street. In cyberspace, however, a new generation of *cheap and simple e-commerce* software is levelling the playing field for smaller companies.

According to Datamonitor, a UK-based consultancy, the western European market *for commerce* software is poised to grow dramatically from $50m in 1997 to $285m in 2002.

For once, the European software *industry is well-placed to* capitalise on this burgeoning market because of the intricacies of writing software to cope with diverse languages, currencies and payment methods.

Germany's Intershop helped pioneer the market and the latest version of its software, Intershop 3, is offered in German, French, Norwegian and English versions. It has "point-and-click" features to allow inexperienced retailers to create a virtual storefront easily.

The software costs $5,000, although the licence drops to around $1,000 if the store is "co-hosted" on a computer with other stores – an arrangement used by online malls.

Ambit Consulting, a small Barcelona-based company, has developed commerce software for the booming Spanish-speaking internet market. Its WebShop product allows retailers to mount a virtual store from just Pta15,000 ($100) a month. Traditionally, *e-commerce sites have been built* using expensive software and consultants. The licence fee is just the tip of the iceberg as up to 70 per cent of the cost of an online store can be spent on "plumbing" the web site into existing order and payment systems. A basic internet store can thus easily cost $20,000 while sophisticated sites can cost 10 times as much.

"If you are worried about spending $20,000 then you simply are not in the game," says Craig *Danuloff, president and chief* executive of US software house iCat. His company's high-end software powers many sophisticated web stores, such as the France 98 World Cup online merchandise store, which received up to 1.3m hits a day.

question

'What software is available to enable businesses to set up and run their internet shopping sites?'

But most retailers have more modest ambitions. They lack the budget and expertise needed for traditional commerce software but would nevertheless like to test the e-commerce waters.

This year, iCat launched a product, Commerce Online, to reach this market. It allows a basic online store to be created *and hosted free on iCat's site.* The software allows inexperienced users to create an internet store with features such as a browseable catalogue, "shopping cart", and credit card handling in only 30 minutes, iCat claims.

"It provides everything you need to create an electronic storefront in a shrink-wrapped box," says Mr Danuloff. The "shop-in-a-box" software is free to US businesses if their online catalogue has 10 items or less. For 11 to 50 items, the price is $50 a month and rises in tiers thereafter.

Mr Danuloff hopes once companies have taken their first tentative steps with the free service, they will want to expand their *online catalogue beyond the 10-*item limit, which is when iCat starts making money.

"Once they start getting 3 to 5 per cent of revenues from the *internet, they do not want to lose* that new revenue stream," he says. He aims to attract 100,000 companies in the next 12 months and hopes up to four out of every *10 will upgrade to the paid service.*

The company is bringing Commerce Online to Europe. A UK version is planned for September and software is being translated into German and French.

IBM's HomePage Creator is similar to the iCat service. A monthly fee lets companies use the store builder software and host their stores on an IBM site. The service will also register a domain name if the retailer does not have one, and it will list the site with 20 popular search engines so that web surfers can easily find it.

In the UK, pricing starts from £15 a month for up to 12 items. The software supports 13 languages and 17 currencies and has ready-made "templates" to allow non-programmers to create a basic store.

One recent customer is the four-man Scottish Craft Brewers Co-operative in the tiny hamlet of Lugton, west Scotland. Using the internet and the IBM program, the co-operative can now handle orders from beer fans around the world.

"The web is an ideal medium for the co-operative to sell to new audiences at nominal cost," says Chris Lynas, director of the co-operative, which gets around 20 or 30 orders a week at its web store (www.lugton.co.uk). Mr Lynas admits the Lugton co-operative is unlikely to win any *prizes for its web site design.* "It is not bad considering we did it ourselves," he says. The site does its job and, crucially, needs no technical expertise to build or maintain.

One advantage of the IBM software is its built-in payment handling. The co-operative's first web store – built cheaply by an inexpert programmer – was not a success. Mr Lynas blames this partly on its poor payment handling. Credit card details were not encrypted. Few visitors placed orders.

With the co-operative's new site, card details are encrypted and IBM has designed the service so that transactions are passed directly to a third party for authorisation. The retailer never sees the card details and is told only whether the transaction is authorised or not. The payment processor, Cambridge-based NetBanx, takes a percentage of each card transaction and pays the retailer directly.

Another product designed to simplify e-commerce is the StoreBuilder program from US vendor Mercantec, which costs only $99 and is an add-on for Microsoft's FrontPage web site software.

Professional web site developers play down the threat posed by these entrants. "There is no way you can have a sophisticated site in a product costing $99," says Mark Steven, managing director of Citygate, a UK-based e-commerce consultancy. It has developed 22 commerce sites and its prices start at about £10,000.

But web site sophistication is not a high priority at the Scottish Craft Brewers Co-operative or many smaller companies taking their first steps in e-commerce.

"My knowledge of computers is pretty limited but even I can use the software. A lot of people will be attracted by the ease of use of these products," says Mr Lynas.

This is part of a continuing weekly series.

MANAGEMENT JAPAN'S CORPORATE ENTERTAINMENT

Presents become a thing of the past

Many business customs can no longer be taken for granted, writes **Michiyo Nakamoto**

The Japanese love to give each other gifts. Summer is one of two peak times in the year when individuals and businesses exchange packages of fancy sweets, drinks and fruit in a practice aimed at ensuring smooth relations for the rest of the year. The other is winter.

Large corporations spend tens of millions of yen on these gifts. Although the practice has now faded, it was not unusual in the past for different divisions in the same company to send each other gifts.

This year, however, a notable *change has occurred. Corporate* gift-giving has come under strong criticism among the Japanese public and businesses are reassessing the practice.

Companies including Nissan, Japan's second-biggest car maker, Seiyu, an important supermarket operator, and Tokyo Mitsubishi Bank have banned gift-giving altogether. Others are reviewing the practice.

The decision to curb corporate gift-giving is part of a general trend among Japanese companies. As competition intensifies both in the domestic market and internationally, they are finding practices long taken for granted – including lifetime employment and seniority-based pay – are not necessarily serving them well.

Corporate entertainment has been widely criticised for raising the cost of everything from golf course green fees to top-quality restaurant bills. A series of recent scandals, involving the excessive wining and dining of public officials by financial institutions, has also given corporate hospitality a bad image. Bureaucrats in the finance ministry, trade ministry and even the central bank were found to have been lavishly entertained by the institutions they were supposed to be supervising.

Perhaps more significantly, the trend reflects a growing eagerness among Japanese companies to adopt western – particularly American – standards of corporate behaviour. This includes corporate hospitality, an area where foreign – again, particularly US – companies have much stricter rules of conduct.

Nissan's decision to ban gift-*giving in principle and to set* strict rules about what is acceptable in terms of offering and receiving corporate hospitality stems from a perceived need to bring corporate practices in line with those in the west.

"We decided that in our business deals we have to adopt an *American standard," explains* Itaru Koeda, managing director of Nissan's purchasing group.

For example, procurement decisions should be based on what is best for the business, rather than on personal relationships. "We want to do fair business," he says.

Mr Koeda admits that Nissan buys parts from certain suppliers with which it has had a long-term business relationship even if those parts are not the most cost-competitive. "We share our fate. We develop products together, there is a lot of confidential information we share," he says.

But he adds that "we don't want any situation in which it could be said that one reason why a particular company gets business [from Nissan] is because of the close relationship" between a particular Nissan employee and a supplier.

'If you get personally close to your supplier, it is difficult to say no to a deal'

Many Japanese business executives continue to argue that corporate entertaining is necessary to get to know those they do business with. Critics point out, however, that it is not the entertaining itself that is the problem but the particular difficulty Japanese society has in drawing a clear line between this kind of entertaining and strictly business matters.

"If you get personally close to your supplier, it is human nature to find it difficult to say 'no' to a deal," Mr Koeda says. That applies not only to the procure*ment division but to staff in the* design department who have tremendous say about what kind of components will be used in a particular vehicle, and those in the manufacturing division who will choose the machinery to build the cars. Particularly in the Japanese business community, where the decision-making process is often opaque, there is greater room for personal relationships to affect decisions.

"The Japanese are not very good at making things explicit. People rely on having a tacit understanding with others," says Takeshi Inoue, senior vice-president of the Boston Consult*ing Group in Tokyo. "It is almost* like they put the information on the process of decision-making into a black box."

That lack of transparency will not change overnight. In a poll conducted earlier this summer by Mainichi Shimbun, a national daily newspaper, several companies indicated strongly that they consider gift-giving and wining and dining important to their businesses.

Nippon Light Metal, for example, an integrated aluminium producer, remarked that "entertaining is part of Japanese culture".

But there are signs of change. More than 70 per cent of companies surveyed in the poll said that gift-giving and entertaining were becoming unnecessary, while more than 60 per cent have drawn up in-house rules on such practices.

Mr Koeda believes greater exposure to western practices is changing attitudes. "Japanese companies are increasingly staffed with people who have lived abroad, so I think the Japanese standard is disappearing," he says.

TECHNOLOGY WORTH WATCHING

Satellites offer new light on New York's rain-washed weekends

On the US east coast rainfall is higher on Saturdays Hulton Deutsch

The weather really is worse at weekends. Research published in Nature, the scientific journal, today appears to confirm something most of us have suspected for a long time.

On the US east coast, according to satellite measurements recorded between 1979 and 1995, rainfall is about 20 per cent higher on Saturdays than it is Mondays to Thursdays, with Fridays in between. Randall Cerveny, who conducted the research at Arizona State University, says there is clearly a weekly cycle in rainfall.

"Saturday rainfall averaged 558mm a year, while Mondays averaged only 538mm. This is a significant difference: two to three inches – that's equivalent to the entire annual rainfall of Arizona." Dr Cerveny says there is no known, natural, seven-day meteorological cycle. However, other weekly cycles were also observed in the wind speeds of coastal cyclones (significantly lower on Saturdays than on Fridays), and the atmospheric levels of two common human pollutants, carbon monoxide and ozone.

That two-weekly cycles appear to be correlated with pollution levels suggests that the most likely cause of the wet weekend phenomenon is urban air pollution, largely a consequence of car emissions. A possible mechanism for this might be as follows.

During the course of each week, solid particulates generated from the car *exhausts on the US urbanised* eastern seaboard accumulate in the atmosphere. These small, airborne particles readily absorb sunlight, raising their temperature and the temperature of the surrounding air. The heated air rises, creating clouds and precipitation as it does so – just as storm clouds gather at the end of a hot day.

For people living in the UK, it is worth noting that the *prevailing winds on the US* east coast are westerly. Pollution plumes are usually blown across to the mid-Atlantic by the middle of the week, and this is when the maximum levels of precipitation *are observed there.*

Could it be the weekend again by the time the pollution reaches the UK? "The effect decreases with distance, but it may be that our pollution is contributing to rainfall in Great Britain," says Dr Cerveny.

The UK Meteorological Office is confident that US air pollution is residual by the time it reaches the UK, though it is *not sure if the UK's pollution is* contributing to wetter weekends.

However, David Viner, senior research scientist at East Anglia University's climatic research unit, is more reassuring. "There is no evidence of such a thing happening in the UK," says Dr Viner. In the UK, it seems, every day is as wet as the next.

Tom Barlow

IN BRIEF

New concern over widespread use of germ-killing agents

Concerns about the widespread *use of germ-killing agents in* consumer products may be prompted by research published in today's Nature, the science journal.

Researchers at Tufts University School of Medicine in Massachusetts studied triclosan, a potent antibacterial and antifungal agent that is widely used in antiseptic soaps, toothpastes, fabrics and plastics. They believe they have uncovered the first evidence that triclosan acts on a specific bacterial target rather than as a non-specific "biocide". This opens up the possibility that the widespread use of this type of *drug might foster* the emergence of resistant strains of bacteria.

The researchers' conclusion – that triclosan blocks the synthesis of lipids in *E. coli*, a common bacterium – challenges the prevailing belief that *triclosan's action is insufficiently* specific to allow bacteria to become resistant to it.

Tufts University School of Medicine: US, tel 6176366764; fax 6176360459.

Researchers put cheese on the map

French researchers have developed an ultrasound sensor that can test the texture and "holiness" of cheese at an early stage in its production. The technique could cut the number of sub-standard cheeses by as much as a fifth.

The technique involves sending an ultrasound signal into the cheese and measuring the change in the speed and amplitude of the signal that emerges. *The result is to* "map" the cheese, locating and quantifying defects.

The technique was developed at INRA, the French agricultural research institute, with a number of European partners. Axiom *Technologies, a French* manufacturer, expects to produce the first industrial prototype late next year.

INRA: France, tel 384736300.

New moves on reducing friction

A *novel technique for reducing* friction in mechanical systems is being developed at the Georgia Institute of Technology.

Its researchers found that rapidly changing the size of a lubricant-filled gap between two moving surfaces can significantly reduce the friction between them. The technique appears to work by preventing the lubricant molecules from forming ordered layers. The researchers believe it might be possible to reduce friction by inducing small amplication oscillations in devices such as magnetic disk drives.

Georgia Institute of Technology: US, tel 4048946986; http://www.gtri.gatech.edu/rco.html

Clinical trials for 'bioartificial' liver

A "bioartificial" liver, based on pig liver cells, is set to go into late phase clinical trials in the US and Europe over the next two months.

The HepatAssist Liver Support System is designed to support patients with acute liver failure, until a transplant organ can be found or their own *liver recovers.*

The system, which resembles a dialysis machine, circulates the patient's plasma through a cartridge containing thousands of membranes surrounded by pig liver cells.

Circe Biomedical is one of a number of companies researching the use of pig cells and organs for humans.

Circe Biomedical: US, tel 7818638720; fax 7818617936.

Vanessa Houlder

CINEMA

A space-age dirty dozen

Martin Hoyle on an everyday story of Bruce Willis rescuing the planet

In a generally quiet week *Armageddon* arrives with a bang. Innumerable bangs, in fact, not to mention crashes, crunches, shrieks and – almost – the last trump. Despite critical chortles at the sample shown at Cannes, the film is not half bad: a rumbustious, boys' own yarn of derring-do; an everyday story of Bruce Willis rescuing the earth from annihilation and making the world safe for the picturesquely poor and the postcard industry (endless shots of the Taj Mahal and striking mosques, lovable oldies and winsome children).

Our planet is threatened by an approaching asteroid "the size of Texas". Advance meteorites bombard New York as a foretaste: taxis are hurled through the air, skyscrapers punctured, the Empire State Building is decapitated, skewering the streets beneath with its toppling pinnacle; and (in-joke) a vendor of rubber Godzillas receives his contemptuous come-uppance. The parent asteroid will wipe out civilisation much as its predecessor exterminated the dinosaurs. "My God," cries the leader of the greatest democracy on earth. "What do we do?"

ARMAGEDDON
Michael Bay

ZERO EFFECT
Jake Kasdan

TO HAVE AND TO HOLD
John Hillcoat

THE ADVENTURES OF ROBIN HOOD
Martin Curtiz

Cut to Bruce Willis playing golf on an oil rig in the South China Sea. Despite nearly blowing up the rig (more bangs) he is apparently the world's greatest oil driller. It still comes a surprise when he is whisked off to NASA to save the world. "Six billion on the planet – why'd you guys call me?" he demands, taking the words out of the audience's mouth.

There follows a sort of space-age *Dirty Dozen* as Willis leads a mixed and sometimes unsavoury (Steve Buscemi) bunch in a quest to deflect the asteroid by drilling into it and planting a nuclear warhead. His lovely daughter (Liv Tyler) follows the action from NASA, rooting for Dad and her swain (Ben Affleck), between whom there are the playful masculine tensions and rivalries that you know conceal mutual respect.

Despite Michael Bay's brisk direction it takes 70 minutes to get into space. Meanwhile clichés are splendidly polished up, including a sub-Gettysburg presidential address, hearty John Ford-type violence as the roughnecks celebrate their last night on earth, and a lyrical love scene where the swain sticks animal crackers into his innamorata's panties.

The space high-jinks make up in volume what they lack in subtlety, the only real miscalculation being Peter Stormare's embarrassing turn as a lovably zany Russian astronaut with caricature accent. Incidental pleasures include the reduction of Paris to a heap of rubble and the English accent of the thin-lipped boffin described as "the smartest man on the planet". Acting honours are stolen by Billy Bob Thornton's NASA controller, though Ms Tyler has a moist-eyed soulfulness, the inevitable result of biscuit crumbs in her underwear.

A rumbustious boys' own yarn of derring-do: Bruce Willis in 'Armageddon'

*

In comparison, *Zero Effect* looks as ascetic, restrained and austere as Robert Bresson. An astonishingly assured work for a 22-year-old, it's the first feature from Jake Kasdan, son of Lawrence (*The Big Chill*, *Body Heat*). This is a private eye, or rather a private detective, movie. The anglicisation is indicated by the Holmesian tone of Daryl Zero (Bill Pullman) who can make a criminal confess without the subject realising he is being questioned, can tell by looking at you when you were born and how old your mother was at the time, and can solve internationally baffling mysteries that threaten world stability without stirring from his room. He refers to past cases, much as Sherlock Holmes did, by neat titles like "The case of the man with mismatched shoelaces". Like Holmes he dabbles in exotic substances. And he has a long-suffering Watson, Arlo (Ben Stiller), who does most of the footslogging and fact-checking.

Above all, he is detached, hermetically sealed from human relationships, a result of his passion for "the two obs as I call them – observation and objectivity". He is obviously riding for an emotional fall.

This comes with suspect blackmailer Kim Dickens who has something on tycoon Ryan O'Neal. The plot pays homage to American mean streets but the style is mock-Conan Doyle – plus humour. Polished, ironic, enjoyable and hugely promising.

If *Zero Effect* echoes Sherlock Holmes, *To Have and to Hold* conjures up a whole genre of drama depicting expat white men sweltering in tropical humidity and eventually flipping their alcoholic lids before impassive natives and the eternal jungle. The Australian John Hillcoat beautifully evokes the atmosphere – lush, faintly menacing, ultimately uncontrollably alien – in this latter-day *noir* before it goes slightly OTT.

Jack brings his new wife Kate to the remote village in Papua New Guinea where he runs a ramshackle cinema for the natives. She (Rachel Griffiths, of *Muriel's Wedding*) is a romantic novelist; but he (Tcheky Karyo), a widower whose first wife died mysteriously, is no Rochester. As in *Vertigo*, he tries to recreate her, forcing Kate into her clothes and hairstyle. Obsession takes over; Kate is trapped and isolated against a background of local violence. Not quite sure whether to opt for romantic melodrama, mystery or in-depth psychological drama – or final Jacobean bloodbath – the film is gripping and always beautiful to look at.

As, in its own way, is *The Adventures of Robin Hood*, dating from the days when the most sophisticated hardware on show was the longbow and the sword and Basil Rathbone's Guy of Gisborne stood in very nicely for asteroids. Michael Curtiz's 1938 swashbuckler is out in a new print. Errol Flynn *did* have charm, Olivia de Havilland *was* lovely, and Claud Rains looked better in Claudette Colbert's hairstyle than Claudette Colbert did. Great days, innocent days.

THEATRE

Time and the Director

Alastair Macaulay changes his mind about a long-running West End show

Stephen Daldry's production of the J.B. Priestley warhorse *An Inspector Calls* could well turn into *The Mousetrap* before long. It opened at the National Theatre in September 1992: since when it has toured the world, and – after periods in this London theatre or that – has been settled in the Garrick Theatre for almost three years.

Critics are often asked "Do you change your mind about a production?" "Not often" is part of my usual reply. In this case, however, yes, yes, yes.

The production is an archetypal example of Director's Theatre. Priestley's socialist, sterling old thriller is given a strenuously expressionist reading, with melodramatic music (some of it from Hitchcock's *Vertigo*) and with acting of patently artificial grandiosity (loud, gestural, overwrought) and with a set that split itself apart and tipped itself (and its contents) over.

Though Daldry follows Priestley in setting most the play in 1912, he puts it into a framework of 1945, reminding us of when and why Priestley wrote the play. The Birling family, in their dinner attire, might have stepped out of paintings by Whistler; the Inspector who calls on them in his 1945 raincoat and tries to wake them up to their larger responsibilities to the community beyond their four walls might be a man from their future – even at one point stripping down to his shirtsleeves. Priestley suggests that some human natures took longer to change than others; and Daldry rams this point home with bludgeoning force.

This Daldry production was always forceful. If memory serves, however, it was originally served by acting of high-wire tension. No matter how melodramatically huge the gestures, how emphatically loud the orations, the performances felt organic, intelligent, daring. And they became absolutely aligned with the music and the lighting. The artificial emphasis to be discerned everywhere became sheer style. Today, however, the production falls apart – even more thoroughly than its set, which is meant to.

Almost all the acting is simply terrible. But what makes this embarrassing is that you can tell that the actors would really rather not do it this way. You can virtually see Philip Whitchurch and Marjorie Yates counting their reluctant way through the elaborate palaver when the Inspector takes off his jacket and passes it to Mrs Birling, who – for no reason anyone can see – dusts it off and folds it up while speaking. As for the (now clunky) *coup de théâtre* when the set pours all the crockery onto the floor, it is appalling to see the thudding calculation with which the actors now trample the plates underfoot. (It used to seem accidental.)

William Gaunt, who, as Mr Birling, has to shout arrogantly almost all evening, seems particularly ludicrous. But Yates (whose account of his wife simply becomes an exercise in vulgar Thespian camp) and Whitchurch (whose performance as the Inspector has few ideas, none of them good) often match him shout for shout. And there were just enough stumbles over lines and words to destroy the audience's faith in the performance.

And so – as in some old opera production created on the likes of Callas or Gobbi or Christoff, where you see present-day singers steering their way warily through 30-year-old bits of stage "business" – the Daldry production trundles from one Effect that has past its sell-by date to another. It is hard to believe that these ploys once seemed compelling parts of one fluent whole. Yet so it seemed.

I should add, however, that I first saw this production in the non-proscenium space of the Olivier Theatre.

Priestley's sterling old thriller is given a strenuously expressionist reading with acting of patently artificial grandiosity

As staged in the more conventional space at the Garrick, the play begins with, and returns to, some staggeringly artificial business to do with 1945 children climbing up onto the apron of the stage from a manhole and fiddling dully with the theatre's old red curtain. The kids look as if they would rather be doing their homework, and so the show feels phoney from the start.

For whom now can this production make serious sense? I have met GCSE students (the play has recently been a set text) who simply found the 1945 stuff bewildering, and I imagine most tourists will think the same. Even to those of us who more or less understand the concept, the image of 1945 does not impress now as it did in 1992-93. And as for the whole genre of Director's Theatre that is exemplified by this production, it emerges from postmodern ennui. As with all too many Shakespeare plays and too many operas these days, Director's Theatre knowingly announces "Here is a weary old work onto which we have ladled some clever new life". It is essentially opposed to the true spontaneity and innocence (tell us a story as if it was new) that the truest drama is all about.

An Inspector Calls is at the Garrick Theatre, London WC2.

Alastair Muir

Elegance of style, serene technique and dramatic presence: Thomas Edur and Agnes Oaks in one of the two classic duets

Jolly virtuoso shows his paces

DANCE

CLEMENT CRISP

Dash
London Coliseum, London WC2

Wayne Sleep the indefatigable, the darling of the public whether he spins or sings or cracks jokes, the unquenchable virtuoso and missionary of dance, is at the London Coliseum this week with his Show. His public loves him, loves his unpretentiousness, his energy, his willingness to meet them on their own aesthetic ground, his eagerness to entertain.

The evening, which is a bran-tub of dance-scenes of varied merit (and only those who see it will know quite how varied), has *Dash* as its title. Some of the items have a lot of dash to them. Sleep dashes about and chats to us with untiring charm. And for some incidents words stronger than "dash" (or even "drat" or "help!") spring to the lips. But there it is, and there Wayne – as his adoring public surely thinks of him – is, and there also is minimal staging, a palm court group of musicians (who work like demons) and a troupe of infinitely willing dancers. And there, for people who value classic dancing of the purest kind, is Thomas Edur – but more of this artist anon.

The show comprises 17 numbers. Sleep introduces them, dances in some, and leads the rout. Some of the activity rattles about on the Coliseum stage, and so does much of the choreography. But this is more than anything an evening out for his fans to see a jolly dance-virtuoso whose 50 years lie very lightly on him, sharing the task of amusing us with a dozen other dancers.

It is, with the exception of the two classic duets featuring Agnes Oaks and Thomas Edur, flimsy stuff. Sleep gives us his Chaplin, his Ashtonian Tweedledee (with the splendid Graham Fletcher as Tweedledum), his tap-dancing cygnet (a joke so fearful that it has acquired a kind of bravado, daring the audience not to laugh), and demonstrates considerable bravura.

Other dancers, notably the brilliant Yat Sen Chang, are on good form. The very young American Melissa Wishinski (from the Hartford Ballet) goes uncomprehendingly through the *Don Quixote* duet, but shows better qualities in an otherwise muggy version of *L'après-midi d'un faune*. There is also a brief evocation of Loie Fuller (danced by Maddy Brennan) which catches something true and fascinating about that Art Nouveau Queen of Light and Drapery. And, as all the advertisements promise, there is Sleep's *Tribute to Diana* in which his appearance at Covent Garden dancing with the Princess of Wales acquires mythic significance, a whirlwind of steps from Sleep, an outbreak of dancing kiddies, a large photograph of the event as backdrop, and a white rose.

But about Thomas Edur. He is that rarest of beings, a *pur-sang* classical danseur. He possesses every merit that the hardened and doubting critic hopes for, and so seldom sees: elegance of style, serene technique, perfect manners, dramatic presence. In the second act duet from *Giselle* he was night-haunted, noble. In the final pas de deux from *The Sleeping Beauty* he was a prince in all things, the embodiment of those hard-won virtues that every male dancer seeks. In both scenes Agnes Oaks was a worthy partner. In 50 years I have seen less than a handful of artists able to sustain the *Beauty* duet with the grandeur it needs. Edur, in simple dignity, is among them, and in his artistry we sense the historical blood-lines that link today's male dancers with the example of Louis XIV, whence still comes the danseur's attitudes, deportment, inspiration in classical ballet. He is a marvel.

INTERNATIONAL

Arts Guide

EDINBURGH

EXHIBITION
Scottish National Gallery of Modern Art
Tel: 44-131-624 6200
Mona Hatoum: 46 works ranging from photographs and videos to sculptures made from materials including hair, wax, soap, steel, rubber, pins and razor blades; to Oct 25

GLIMMERGLASS

OPERA
Alice Busch Opera Theater, Cooperstown
Tel: 1-607-547 2255
● Falstaff: by Verdi. New production directed by Leon Major with sets and costumes by John Conklin. Conducted by George Manahan. Cast includes Kevin Glavin, Stephen Powell and Amy Burton; Aug 8, 11
● Partenope: by Handel. New production directed by Francisco Negrin, in his Glimmerglass debut, and conducted by Harry Bicket. Cast includes David Daniels and Lisa Saffer in the title role; Aug 8, 10
● The Mother of Us All: by Virgil Thomson. Conducted by Stewart Robertson in a new staging by Christopher Alden, with sets by Allen Moyer; Aug 7
● Tosca: by Puccini. New staging by the team responsible for last year's Madama Butterfly: director Marc Lamos, set designer Michael Yeargan, costume designer Constance Hoffman, lighting designer Robert Wierzel and conductor Stewart Robertson; Aug 6, 9

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Capriccio: by R. Strauss. Revival conducted by Andrew Davis and directed by John Cox. The Countess is sung by Felicity Lott. With the London Philharmonic Orchestra; Aug 9
● Le Comte Ory: by Rossini. Revival conducted by Yves Abel and directed by Jérôme Savary, with the London Philharmonic Orchestra; Aug 6, 8, 12
● Simon Boccanegra: by Verdi. New production conducted by Mark Elder in a staging by Peter Hall. With the London Philharmonic Orchestra. The title role is sung by Elena Prokina; Aug 7, 10

LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● BBC Concert Orchestra: conducted by Barry Wordsworth in works by Walton, Robert Simpson, Foulds and Elgar. With piano soloist Piers Lane; Aug 6
● BBC National Orchestra of Wales: Tadaaki Otaka conducts the UK premiere of Sofia Gubaidulina's And: the feasting at its height. Programme also includes works by Dukas, Szymanowski and Strauss. With cellist David Geringas and tenor Jean-Paul Fouchécourt; Aug 10
● BBC Symphony Orchestra: conducted by Mark Elder in works by Berlioz, Liszt, Britten and Prokofiev. With the BBC Symphony Chorus, Philharmonia Chorus and piano soloist Paul Lewis; Aug 9
● Birmingham Contemporary Music Group: Simon Rattle conducts a programme of works by British composers including Oliver Knussen, Thomas Adès, Simon Holt and Mark-Anthony Turnage. With piano soloist Thomas Adès and cellist Ulrich Heinen; Aug 10
● Javanese Court Dance and Gamelan: with dancers and musicians from STSI Surakarta and the South Bank Gamelan Players; Aug 6
● National Youth Orchestra of Great Britain: conducted by Mstislav Rostropovich in Shostakovich's Symphony No 10 in E minor. Programme also includes the world premiere of a specially commissioned new work by Michael Berkeley and Britten's Young Person's Guide to the Orchestra; Aug 8
● Ulster Orchestra: world premiere of a new work by Rodion Shchedrin, conducted by Dmitry Sitkovetsky. Programme also includes works by Berlioz and Tchaikovsky. With soprano Barbara Hendricks; Aug 7

Royal Festival Hall
Tel: 44-171-960 4242
Kodo Drummers: return visit by the 14-strong Japanese troupe; Aug 12

DANCE
Barbican Theatre
Tel: 44-171-638 8891
www.barbican.org.uk
Tharp! two week season of modern American choreography. Programme 2 (Aug 4-8) includes Sweet Fields, which draws on traditional American choral music, and Heroes, a ballet score by Philip Glass; to Aug 8

ROTTERDAM

EXHIBITION
Kunsthal
Tel: 31-10-440 0300
Look at me: Fashion and Photography in Britain 1960 to the present. First stop for a touring exhibition which tracks the development of fashion photography with its emphasis on popular culture rather than haute couture; to Aug 9

SALZBURG

OPERA
Salzburg Festival
Tel: 43-662-844501
● Don Carlo: by Verdi. New staging by Herbert Wernicke, with the Vienna Philharmonic and Opera conducted by Lorin Maazel. Cast includes Samuel Ramey; Grosses Festspielhaus; Aug 7, 10
● Katya Kabanova: by Janáček. Conducted by Sylvain Cambreling in a staging by Christoph Marthaler, with designs by Anna Viebrock. With the Czech Philharmonic; Kleines Festspielhaus; Aug 6

THEATRE
Salzburg Festival
Tel: 43-662-844501
● Soon: by Hal Hartley, with music by Hal Hartley and Jim Coleman, and sets and costumes by Steve Rosenzweig. Co-production with deSingel, Antwerp; Perner Insel; Aug 7, 8, 9, 11, 12
● Danton's Death: by Büchner. New, co-production with the Berliner Ensemble, directed and designed by Robert Wilson, with costumes by Frida Parmeggiani; Landestheater; Aug 6, 7, 8, 10, 12

SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
www.santafeopera.org
● Beatrice and Benedict: by Berlioz. New production directed by Tim Albery and designed by Jennifer Tipton. Susan Graham will sing the role of Beatrice, with Elizabeth Futral as Hero. The conductor is Edo de Waart; Aug 6
● The Magic Flute: by Mozart. New production by Jonathan Miller, with sets by Roni Toren and costumes by Judy Levin. Cast includes Sheri Greenawald; Aug 10

SCHLESWIG-HOLSTEIN

CONCERTS
Schleswig-Holstein Music Festival
Tel: 49-431-567 080
● Cologne Chamber Orchestra: conducted by Helmer Müller-Brühl in works by Vivaldi and Bach. With soprano Barbara Schlick, flautist Patrick Gallois and oboe Christian Hommel; Schleswig, Dom (Aug 10) and, in a slightly altered programme, at the Hasselburg, Scheune (Aug 11)
● Schleswig-Holstein Music Festival Orchestra: conducted by Donald Runnicles in works by Berg and Mahler. With soprano Laura Aikin; Kiel, Schloss (Aug 7) and Lübeck, Musik- und Kongresshalle (Aug 9)

SEATTLE

OPERA
Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Tristan und Isolde: by Wagner. New production by Francesca Zambello, conducted by Armin Jordan. The title roles are sung by Jane Eaglen and Ben Heppner; Aug 7, 10

VERONA

OPERA
Arena di Verona
Tel: 39-045-800 5151
www.arena.it
● Tosca: by Puccini. New production by Giuliano Montaldo, with sets by Luciano Ricceri. Cast includes Ruggero Raimondi and the conductor is Zubin Mehta; Aug 7
● Un Ballo in Maschera: by Verdi. New production by Giuliano Montaldo with sets by Luciano Ricceri. Conducted by Daniel Oren; Aug 6

WASHINGTON

JAZZ
Wolf Trap
Tel: 1-703-218 6500
Ray Charles; Aug 11

TV AND RADIO

● WORLD SERVICE
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● CNN International
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● Business/Market Reports: 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

The R-word again

A UK slowdown has started, but the Bank of England could aggravate it by rigid adherence to doubtful doctrine

Is the shakeout in London equity prices a sign of recession?

It is mainly a sheep-like reaction to the Wall Street drop – an accident waiting to happen. A fall in US equities of up to 20 per cent would be healthy and would ease the Fed's problems in managing the US economy.

The reasons for fearing a British recession are domestic.

The UK economy is already slowing down. In the second quarter of 1998, real gross domestic product rose at an annualised rate of 3 per cent – or 1.6 per cent if the volatile oil sector is excluded. Nearly all surveys of intentions and orders suggest the slowdown has much further to go.

In the US, a recession is defined as two quarters of falling output. Whether UK output growth remains slightly above or slightly below the zero point is very much in the lap of the gods, or more precisely in the hands of the official statisticians. We can safely talk about a "hard landing".

Why is the economy slowing down so much?

Because of the overshoot of sterling. The Asian crisis is also an influence, but its effect lies mainly in the future. Sterling rose from DM2.26 in 1995 to a peak of over DM3 this spring, well above the central rate during Britain's ill-fated membership of the exchange rate mechanism in 1990-92. On the trade-weighted index, it also showed a large increase. Since then, sterling has come down to around DM2.90, but the fall has not gone far enough or lasted long enough to restore competitiveness.

The UK has thus suffered from a divided economy. Total real GDP has continued to rise, but manufacturing output, which is heavily dependent on exports and subject to import competition, has already fallen by ½ per cent over the past three quarters.

Is it likely that the setback will remain confined to manufacturing?

Extremely unlikely. Apart from anything else, the service sectors are also exposed to international competition even though the effect takes longer to show.

Why, then, has the Bank of England been raising interest rates?

The clue is something known as the "output gap". If output is below a safe level of capacity utilisation, there is downward pressure on margins and wages, and eventually on inflation. If output is above capacity, then inflation tends to rise. Mainstream economists now regard this gap as the key to inflation over the two-year time horizon at which the Bank of England looks.

Because of the behaviour of earnings and surveys showing increasing recruitment difficulties, some economists think that output is 1¼ or 2 per cent of GDP above its sustainable trend. If so, it would have to be brought back by that amount simply to prevent inflation from accelerating.

Does the pessimistic view of the output gap justify a new base rate increase?

It depends what you think the output trend would be without a change. Goldman Sachs' analysts, who have been emphatic about the danger of overheating, now believe the economy will "stagnate" up to mid-1999 even on existing interest rates and that rates could fall by 1 percentage point in 1999. But the Monetary Policy Committee, which will worry about the effects on prices of any slide in sterling, could take a different view.

How does unemployment fit in?

The original idea was that of an equilibrium rate of unemployment – unfortunately named the "natural rate" – below which inflation would accelerate. But, by talking about the closely related output gap instead, the concept has been sanitised and it is possible even for a Labour government to use it.

What do you think the natural rate is?

The most frequent estimate is 7 or 8 per cent, compared with a present rate of 4.8 per cent. But in truth we have very little idea either of the natural rate or of the capacity gap. In the US, unemployment has for some years been below the estimated natural rate; in the end economists have revised the latter downwards. Milton Friedman, who was one of the inventors of the natural rate, steadfastly refuses even to guess its level.

Do the higher-than-expected public spending plans worsen the outlook for interest rates?

Yes, although the big increase was not in the hyped-up spending document published in July. It was foreshadowed in the more fundamental June economic and fiscal strategy report. It looks as if the projected public sector balance for 2000-2001 will be 1 per cent of GDP worse than was projected in the central case in the March Budget report.

Does the prospect of a hard landing make these spending plans more difficult to afford?

The chancellor has said that his aims for the budget balance are medium term. In a rational world, the automatic increase in the budget deficit during a recession should be a useful built-in stabiliser, cushioning the fall in activity. But although the Treasury has published cyclically adjusted projections, the overwhelming emphasis in public presentation has been on the alternative, and more dubious, justification that there is an adequate margin for error in the unadjusted projections. Ministers will have great problems in selling the built-in stabilisers to the financial markets and the media.

How can Gordon Brown reconcile "welfare-to-work" with his appointment of a Monetary Policy Committee which worries that unemployment may have fallen too low?

Theoretically, the purpose of labour market reform is to reduce the level of unemployment at which the economy can be run without a takeoff into ever-higher inflation. But this is a long-term process. Today, a 4.8 per cent unemployment rate co-exists with many signs of labour shortage – for instance, some half of the employers in a recent survey complained they could not recruit enough skilled labour. Nevertheless, the presentation is confusing.

Where does the minimum wage come in?

The main danger of the minimum wage is to employment and to personal freedom to make contracts, not to inflation. The Bank made a provisional estimate that it might add up to 1 per cent to the wage bill. But this should be a once-for-all increase. The same logic that saw the MPC play down the earlier rise in sterling as a one-shot affair ought to make it take a similar attitude to the minimum wage. But fierce inflation fighters do not always act consistently.

What would be your alternative to current policy?

The one sure way of abolishing the roller-coaster ride of sterling, for a large part of British trade, would be to abolish the pound itself by adopting the euro. But UK business would then have to accept an interest rate tailored to average European requirements rather than to specific British circumstances.

Is there a domestic alternative?

Faithful readers will know my long-standing support for monitoring nominal demand. This would give some weight to real growth but still put a lid on inflation.

As an immediate step I would give more weight to actual inflation as distinct from rarified speculation about its trend in two years' time. Producer prices have hardly risen at all since 1996 and the Bank's own retail prices measure, which excludes indirect taxes, is rising at 2 per cent, similar to the GDP deflator. In any case, the emphasis on earnings is misplaced in a competitive economy where what matters is how far employers can pass them on in final prices.

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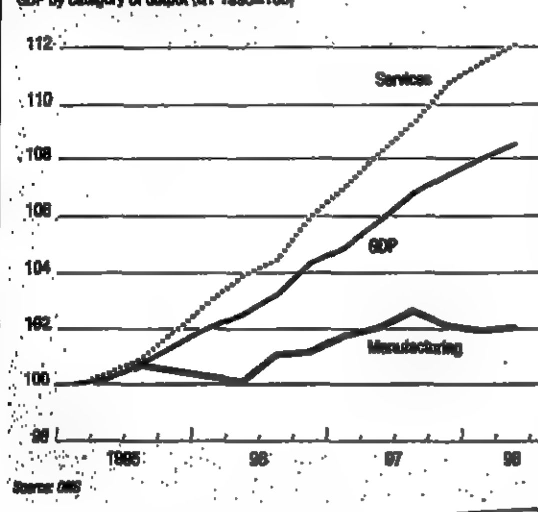
The divided UK economy
GDP by category of output (Q1 1995=100)



LETTERS TO THE EDITOR

Helms' commendable advocacy marred by stance over ICC

From Mr A. Lawrence Groo.

Sir, Given Senator Jesse Helms' position and long experience with foreign affairs, his views ("We must *slay this monster*", July 31) concerning the proposed International Criminal Court are worth considering. As an American citizen, I am particularly appreciative of Mr Helms' comments regarding the sanctity of US national security policy. But from a legal point of view the arguments he put forth in opposition to the ICC are misguided.

One of Mr Helms' most serious criticisms of the new court relates to its independence vis-a-vis the UN security council. In his view, this represents "a massive dilution" of the council's power. Yet this same sense of judicial independence is enshrined in the US Constitution: the judiciary is independent of the executive branch. In condemning the relative independence of the ICC Mr Helms is also criticising a central political tenet of the country he represents.

Another important criticism he makes is that the ICC's statutorial mandate poses a threat to US servicemen abroad – who in the course of their peacekeeping or humanitarian duties may find themselves liable to prosecution by the ICC. Far from making such a happenstance likely, the statute poignantly makes allowance for this possibility. In reference to war crimes and crimes against humanity, for instance, "large scale" or "systematic" violations must occur before the ICC's jurisdiction can be invoked.

The hollowness of his criticism is substantiated by the fact that Canada, a country comparatively even more active in international peacekeeping than the US, supported the ICC enthusiastically. Mr Helms' tireless advocacy for US national security interests is commendable. His opposition to the ICC is not.

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Pressures on UNHCR to compromise ideals

From Mr Arthur C. Helton.

Sir, as one who has followed for many years the work of the United Nations High Commissioner for Refugees, I was saddened to see the revelations in your article "Ideals fall prey to political pressure" (July 29). Many non-governmental organisations have recently expressed concern about the diminishment of UNHCR's protection initiatives.

The truth is that UNHCR has been increasingly pressured by governments to compromise refugee protection ideals, including by requiring the agency to deploy in situations of internal strife without an appropriate military or political framework. The low point in the decline of protection occurred in 1996 with the forced return of asylum seekers from Tanzania to Rwanda with UNHCR's acquiescence.

The challenge for the agency's leadership now is to undertake a campaign to revive respect for the human rights of refugees.

Arthur C. Helton,
director,
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Glaxo has no plans for European TV campaign

From Mr Geoffrey Potter.

Sir, An article on our half yearly figures headlined "Glaxo plans European TV campaign" (July 31) suggested that Glaxo Wellcome plans to lead the way into European advertising of prescription drugs with television campaigns about diseases that our products are used to treat.

I would like to make it clear that Glaxo Wellcome has no plan for any such campaign. As your article notes, the advertising of prescription medicines direct to patients is prohibited under EU legislation and we have no intention of seeking to circumvent the law.

While we certainly feel that there is a good case for increasing the provision of information to patients, we are very sensitive to the concerns felt about direct to consumer advertising here in Europe.

We do, however, believe that the experience of direct to consumer advertising in the US should be carefully examined and we intend to play a full part in the debate that is already under way in Europe about how regulations governing the supply of information to patients might evolve in a period of rapid change in both healthcare provision and information technology.

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PERSONAL VIEW ASHUTOSH VARSHNEY

The folly of America's nuclear diplomacy

US-China relations, not India-Pakistan, are the real cause for concern in South Asia

In its nuclear diplomacy and rhetoric, the Clinton administration has seriously underestimated the depth of India's mistrust of China by focusing instead on India-Pakistan relations, or on the domestic imperatives of the new Indian government.

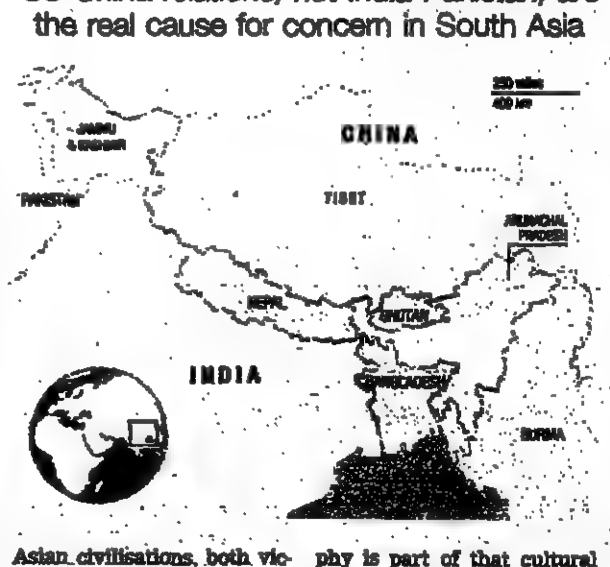
The core of India's emerging security dilemma is simple. The more China rises as a power and the more the US government emphasises friendship with China, the stronger will be India's concern. The Clinton administration has so far failed to see the link between China's moves and America's China policy on the one hand and a burgeoning Indian concern on the other.

Nothing can convey the depth of India's mistrust of China more than a story embedded in India's psyche and resurfacing now as the US plunges into a passionate affair with China.

After India's defeat in the 1962 war with China, a cultural event took place in Delhi. Prime Minister Nehru was presiding and Lata Mangeshkar, India's equivalent to Frank Sinatra and one of the greatest figures in the nation's popular culture, sang a song that has since become known to millions of Indians. "O my countrymen do you have enough tears for those who died for the country?" *(Ai mere watan ke logon.)*

As he heard the song, Nehru wept. At the age of 73, a man who had spent more than 10 years in jail for opposing the British Raj, who nursed the nation back to health after the wounds of partition in 1947 and who worked 16-18 hours a day, seldom complaining of fatigue, broke down in full public gaze.

His tears reflected the fact that India's defeat in the 1962 war with China was the greatest failure of Nehru's public life. In the 1950s, Nehru invented the slogan "India-China brotherhood" and turned it into a cornerstone of India's foreign policy. He was fond of arguing that in the new era China and India, the two great Asian civilisations, both victims of imperialism, were entwined in a fraternal embrace.



Mao's reply was war. India was abysmally prepared. The strategic emphasis was on peace, not fighting and India's defence expenditure was paltry. Hundreds of soldiers, most of whom did not have even warm clothes froze to death on the Himalayas.

After the China debacle, Nehru's health deteriorated rapidly and he died within 18 months. In October, 1964, barely four months after his death, China conducted its first nuclear tests, rubbing salt into India's wounds.

India's nuclear programme was born in response. It is folly for the Clinton administration not to recognise this. India is determined to ensure that unpreparedness never costs the country another humiliation at China's hands. To put it simply, a powerful, rising and nuclear China, indulged by the US, requires a nuclear India for four reasons:

- The 2,000-mile-long border remains unsettled. The negotiations of recent years have shown a weaker India accommodating itself to a powerful China for the sake of peace. Since the opening of the Chinese economy, Marxist ideology is being increasingly replaced by culture as the glue of the Chinese nation. China's geography is part of that cultural view, according to which all of Taiwan, the South China Sea, *Tibet and parts of India* belong to the Chinese civilisation as it was constructed in the middle years of the last dynasty. Chinese officials claim Arunachal Pradesh, a north eastern Indian state, as part of China's "historic territory". China also continues to occupy part of Kashmir, something rarely mentioned in American discussions of the region.
- The rising energy needs of a growing Chinese economy are unlikely to be met domestically. In recent years, China's economy has grown at 10 per cent a year, but its oil production has grown at only 7 per cent annually. Middle Eastern oil remains the cheapest source of energy for China. Pipelines through Central Asia are expensive and dangerous, for they will pass through the Moslem part of *Chinese* territory and China's Moslems are already restive. An enhanced Chinese naval presence off the coast of Burma is a logical consequence of this fact. A Chinese naval presence in the Indian ocean can only be a matter of concern for India.
- China has been the main supplier of nuclear technology to Pakistan. Pakistan is not, and cannot be, a strategic threat to India without Chinese support. The powerful pro-China business lobby in the US makes matters worse from an Indian perspective. It leads Indian decision makers to doubt that in the event of a Chinese threat, America will provide security to India. Instead, given its business interests in China, the US is likely to push India towards compromises with China. With the collapse of the Soviet Union, the Soviet security umbrella over India has disappeared. India must now look after itself.
- Challenges to China's current political elite are likely to increase, as a civil society is born out of rising prosperity. How will China's leaders respond to internal challenges to their rule? Bowing out, like Indonesia's Suharto, is almost inconceivable. External adventures *have often been used to prop* up tottering authoritarian regimes. Unless a legitimately elected government takes power in China, Chinese leaders are capable of inflicting at least as much harm on other nations as they do on their own people. *Given that the Great Leap* Forward of 1958-61 led to 25m-28m deaths from starvation, millions more were victims in the Cultural revolution that followed and, even in the post-Mao period, tanks rolled out against protesting students in Tiananmen Square, this is an alarming thought. Apart from the Communist party, the People's Liberation Army is the only powerful nationwide institution in China.

With a domestic record and structure like this, can a non-democratic China be trusted to be an advocate of international peace? India, Vietnam, Taiwan and even Japan have reasons to be concerned. Until India believes that its security concerns with respect to an authoritarian China are recognised, peace in South Asia is impossible. Pakistan is not the primary focus of India's strategic thinking any more.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Thursday August 6 1998

Saddam's summer strike

The only surprise in the latest crisis provoked by Saddam Hussein is that it comes in August, a few weeks earlier than expected. Five months after a confrontation with the United Nations brought Iraq to the brink of war, the Iraqi dictator this week rejected a new work programme to speed up UN weapons inspections and then decided to freeze all co-operation with inspectors.

Saddam has concluded inspections will not be wrapped up before the next UN security council review of sanctions in October. So his only hope for an end to the embargo this year is to exploit divisions on Iraq within the security council and prove the UN body incapable of agreeing a common strategy towards Iraq. This, he believes, would encourage countries to break the sanctions, leading to their effective collapse.

Saddam is now testing the waters to determine whether friendly countries like France, Russia and China might back a lifting of sanctions, without a clean bill of health from Unscom, the UN weapons inspectors' commission.

This poses a real danger for the fragile international consensus on Iraq. However large the appetite for a lifting of sanctions might be among some security council members, this is not the time to highlight divisions. The council should issue a firm call for a resumption of Iraqi co-operation with inspectors and send Saddam a clear warning not to escalate the crisis.

The latest stand-off, however, must call in question once more the long-term viability of UN policy on Iraq. Fading support for sanctions, lack of enthusiasm for US military strikes, and pressure to open up Iraq for business, have undermined the security council's unity and offered Saddam opportunities to play members against each other.

The sanctions have done little to weaken Saddam's grip on power, but they have devastated the country and inflicted enormous suffering on the Iraqi population. They have become Saddam's strongest card, increasing sympathy for Iraq's position in the Arab world and beyond.

There has to be a better way to contain Saddam. For example, continued inspections and stringent weapons monitoring and verification could be combined with a partial lifting of sanctions. One option would be to end the oil embargo on Iraq, but under strict rules, allowing the UN closely to monitor imports and domestic spending to prevent Saddam from using the cash to rebuild his deadly arsenal.

Such an intrusive system would not please Saddam. And it could win much firmer support from all permanent security council members. It would also allow Iraq to redevelop its economy and human resources, while removing the sanctions card from Saddam's hands.

Numbers game

Today's interest rate announcement by the Bank of England's Monetary Policy Committee has been preceded by new doubts over the accuracy of the data members are using to inform their decision.

Perhaps the noisiest debate is over earnings inflation. Robin Marris, professor of economics at Birkbeck College, London, suggested in a recent newspaper article that after correcting for bonuses, there has been no acceleration in earnings growth since 1995.

Bonuses certainly have distorted earnings figures, but the Office for National Statistics has itself published estimates on the effect this has had. Stripping out bonuses is not a difficult statistical problem, and it would be very surprising if the Bank were not on top of this issue already.

Research just published by the London Business School casting doubt on productivity data is likely to be of more concern to the MPC. Productivity is very tricky to measure, since it relies on two other estimates, output and employment, both of which are subject to significant margins of error. The LBS study suggests that manufacturing productivity was substantially underestimated over the past three years. In 1997, for example, it estimates that manufacturing productivity rose by 3.2 per cent, compared with the official figure of 1.2 per cent.

If true, this means that the current pay rises in the manufacturing sector are partly explained by companies rewarding improved performance. This would make the earnings figures that have so troubled the Bank look much more benign.

Statistical problems will always be an issue for central banks worldwide. But these doubts are particularly relevant to today's MPC decision for two reasons. First, the combination of strong earnings growth and sluggish productivity has long been a key concern of the Bank, and indeed this issue was crucial in the MPC's decision to raise rates by a quarter point in June.

Second, the UK economy is at a turning point, where it appears to be finely poised between overheating and tipping into recession. In these circumstances, decisions are marginal – as proven by the split within the MPC – and any doubts about statistics could be critical.

Other data are starting to suggest that the economic slowdown is no longer restricted to the manufacturing sector, and is becoming more broad-based. But the signs are only tentative. The Bank needs to wait and see how its interest rate rises so far have affected the economy. The uncertainties over the data only strengthen the case for rates to be left unchanged for now.

Asian credit

In much of Asia a credit crunch stands in the way of economic recovery. Yet policymakers in the region are experiencing marked difficulty in finding sound ways of recapitalising their banking systems and restoring credit flows. Nothing illustrates this better than the Bank of Thailand's new proposal to offer five-year guarantees for foreign investors who take majority stakes in Thai financial institutions.

When the credit system is paralysed and investors will not put up fresh capital for insolvent banks, state aid may be inescapable. In offering to sell off part of their banking system on a sale-or-return basis, the Thais no doubt hope to establish a virtuous circle whereby a renewed inflow of foreign capital stabilises the currency and restores the capital of the banking system. But it remains to be seen whether the International Monetary Fund will lend its imprimatur to an unorthodox arrangement that smacks of desperation.

The IMF itself has been heavily criticised for bailing out banks that have lent imprudently. Yet the Thai proposal promises a state bail-out before the lending has even happened. As well as rewarding existing shareholders of insolvent banks, this invites foreign buyers to engage in high-risk, high-reward lending.

The guarantee does not, admittedly, cover currency risk; and those who call on the guarantee will have foregone interest income on loans they would otherwise have made elsewhere. But this scarcely offsets the morally hazardous incentive to imprudent behaviour. And the liability on the taxpayer is open-ended.

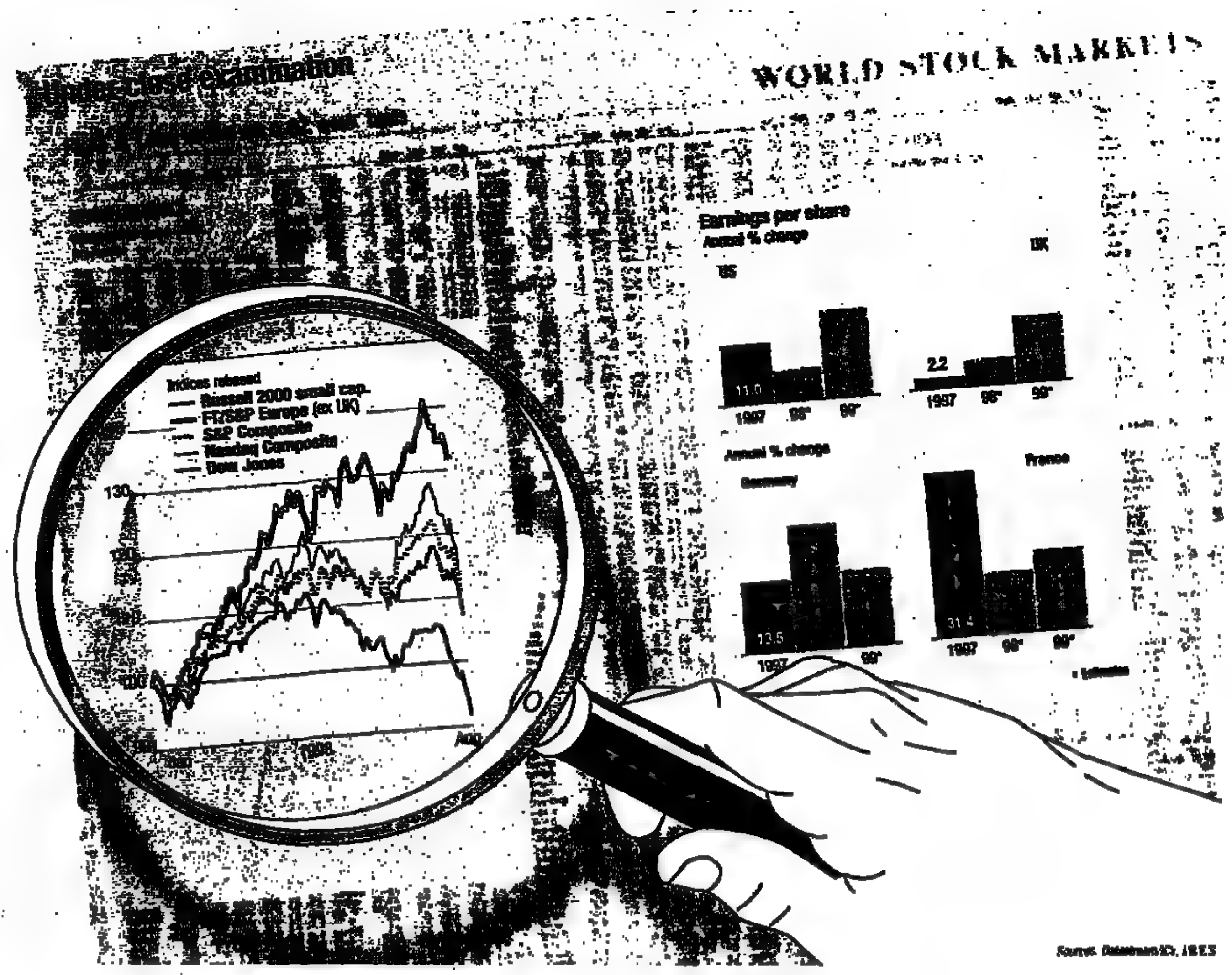
At least no one could accuse the Thais of the protectionist instincts that have inhibited sales to foreigners elsewhere. And their plan is the opposite of one in which the Japanese are asking foreign investment banks to take on a potentially unlimited liability, via a new investor protection fund, to repay the debts of failed securities firms.

In the run-up to Japan's Big Bang there has been much talk about the "Wimbledon effect", based on the fear that liberalisation may result in Tokyo's best financial institutions ending up in foreign hands. Yet if the investor protection fund goes ahead in its present form, Japan may have no Wimbledon at all.

Meantime there is a growing suspicion that the plan for a "bridge bank" to bring about bank closures while supporting sound borrowers will be confined to smaller banks, while the problems of larger institutions may be handled through cosy mergers. If so, both the markets and the opposition parties will be justified in torpedoing the new administration of Keizo Obuchi. The time for soft options is past.

Wall Street's ebb tide?

Philip Coggan and **John Authers** look at the causes of Wall Street's 300 point fall and ask whether this might be the end of the great bull market



Source: Datastream/ICV, IBES

The last rites have been read over the bull market on several occasions in recent years. But each time, like a horror movie monster, share prices have risen again from the dead, more powerful and (to pessimists at least) scarier than ever.

The question is, did Tuesday's 300 point fall in the Dow Jones Industrial Average represent a final end to the great bull run? Or might it prove yet another occasion when a fall on Wall Street is greeted by US private investors as another opportunity to buy?

The past few years have seen much talk of a "Goldilocks economy" in the US – one where growth is fast enough to keep corporate earnings moving ahead, though not so rapid as to prompt inflationary pressures.

But now the markets are starting to worry that one half of this magic combination is faltering. The strong dollar, competition from – and weak demand in – Asia, together with rising wage pressures are banding together to squeeze profit margins.

At his testimony before Congress in mid-July, Alan Greenspan, chairman of the Federal Reserve, said that Wall Street needed "to adjust to a less optimistic earnings prospect". Those remarks took place at what now looks like the peak of the market. Certainly, fears about corporate earnings appeared to be the catalyst for Tuesday's sell-off. Estimates for the third quarter of 1998 have been cut back sharply in the past few weeks, making the price-earnings multiples commanded by many of the larger stocks even harder to justify than they were before.

Earnings growth for the S&P 500 companies that have reported second-quarter earnings so far has averaged 2.9 per cent – far below projections at the start of the year when most analysts were still expecting double-figure earnings growth. According to First Call, the Boston-based research firm that monitors corporate earnings, analysts have shaved their projected profit growth for the current quarter by 0.5 percentage points since Friday. The consensus is now for profit growth of 6.9 per cent.

At the beginning of July, the consensus was still 10 per cent. According to Charles Hill, First Call's director of research, expectations for this quarter are in "free-fall", while its forecast of a 13.7 per cent profit growth in the fourth quarter is looking very optimistic.

Some believe that falling earnings were merely an excuse for an overdue correction to the multiples for the large-capitalisation stocks. For the first half of this year, the market's impressive overall rise was restricted to a steadily narrower group of the very largest companies.

This phenomenon is worryingly reminiscent of the early 1970s, when a gradually narrowing market advance, based on the so-called "Nifty Fifty" stocks, gave way to a prolonged bear market. It means that today's average figures in some ways fail to reflect what is happening to the majority of US companies since they are distorted by a handful of successful, heavily weighted stocks. If you strip these out, a more gloomy picture emerges.

According to David Tillson, senior portfolio manager at US Trust, the 50 largest companies in the S&P 500 represent 51.5 per cent of the index by market value. Before Tuesday's sell-off, the shares of these companies had risen an average of 35 per cent for the year. This group was trading only 6.5 per cent from their highs on average. But at other end of the scale, the 100 smallest S&P 500 stocks were already 27 per cent below their highs.

The performance of the Russell 2,000, the most widely used benchmark of smaller companies' performance, produced an even more bearish picture. Yesterday morning in New York, it dipped below 400 for the first time in more than 12 months; it has now fallen almost 20 per cent from its high of 491.4, set in April, and is off more than 8 per cent for the year.

Figures like this have led some analysts to proclaim that the US is already in a "bear market", as so many companies have now registered drastic share price falls. The disparity in the performance of large and small stocks was the main reason behind Tuesday's astonishing change of heart by Ralph Acampora, the notoriously bullish equity strategist at Prudential Securities, who suddenly announced that he expected the Dow to fall by up to 20 per cent from its high.

"I've been saying that the secondary stocks are already in a bear market and my call is that the blue chips are also going into a bear market," he said.

Such gloomy predictions have been heard before and each time Wall Street has frustrated the bears, rebounding almost as rapidly as it dropped. The key seems to have been the willingness of retail investors to "buy on the dips", backed by their confidence that equity prices always rise in the long run.

This liquidity, as illustrated by the unprecedented flows of cash into mutual funds, has been one of the key supports of the bull market. According to the Investment Company Institute in Washington, a total of $126.2bn flowed into equity funds in the first six months of this year – comfortably ahead of the $108.3bn recorded in the first half of last year, when inflows were the highest on record.

Last October, when the New York Stock Exchange was forced to close early after a 550-point fall in the Dow, the net reaction of retail investors was to treat it as a "buying opportunity". Preliminary indications yesterday were that this was happening again, with Vanguard of Pennsylvania, which has led the mutual fund industry in sales for the past two years, reporting that it had taken net *inflows* of cash on Tuesday. The Dow also managed a modest rebound in early trading in New York yesterday.

Such rebounds might continue for a while. But even if they do, the possibility is that, at some point, the rebound will be less powerful than the initial retreat, like an ebb tide. And what might really test the willingness of the average US investor to keep buying is if Wall Street's fall produced a vicious cycle, in which world markets dropped in response and their weakness led to further declines in New York.

Most Asian stock markets have, of course, already been in a bear market for around a year and dollar-based investors have seen the kind of percentage falls that marked the great crash of 1929-32. For the region, therefore, a fall on Wall Street merely represents one more in a host of problems.

European stock markets ought, in theory, to have some protection from a fall on Wall Street. While US corporate earnings forecasts are being cut, European forecasts (except in the UK) are being increased. Analysts still predict double-digit earnings growth this year and next.

The continental European economy is at a very different stage of the cycle from that of the US and the UK. Growth is starting to pick up after a sluggish period in the mid-1990s; economies can grow at above-trend rates with little fear of inflationary pressure, especially as unemployment in France and Germany remains high.

And Europe is only beginning to experience some of the factors that inspired the long US bull market. Companies have started to pay lip service to the idea of "shareholder value" in recent years; in many cases, they have yet to take the necessary action in terms of restructuring and cost-cutting. Retail investors across Europe have started to perceive the benefits of investing in equities. Net inflows into European equity mutual funds in June, while down from the records achieved in the spring, were still $7.2bn.

Nevertheless, European stock markets suffered a kneejerk reaction yesterday, as they often do when Wall Street falls sharply. European stock markets are trading on heady ratings – 24, based on 1998 earnings, in Germany and 28 in Italy, according to IBES, the information company. This leaves ample room for correction. And if the US economy slows rapidly, adding to the pressure created by the Asian crisis, those European corporate earnings forecasts may start to look optimistic.

The Asian crisis remains the biggest threat to markets in Europe and the US. For much of the first half of 1998, investors in the US and Europe managed to shrug off the effect of Asia, arguing indeed that the main impact would be beneficial, by restraining inflation and stopping central banks from raising interest rates.

Analysts still take heart from the fact that the normal precursors of a bear market or a crash are not in place. "The sign that things had gone wrong in 1987 was the rise in bond yields and inflation," says Bob Semple, strategist at BT Alex Brown.

This time round, inflation is still very low (except in the UK), the yield on the benchmark 30-year US Treasury bond yield is staying stubbornly below 6 per cent; the Fed funds rate is 5.5 per cent and interest rates are even lower in much of Europe.

Such low rates mean that investors have relatively little incentive to switch their money out of equities and into alternative investments – especially as the outlook for Japan and the rest of Asia seems so bleak. That should mean the current setback in markets will turn out to be a correction – something like 10 per cent – rather than a crash of 20 per cent.

Only a global recession would turn such reasoning upside down. As yet, few are predicting that. But consider the fate of Japan. Bond yields have been falling throughout the 1990s and interest rates have been low, but that has done the equity market no good at all. The Nikkei 225 average, in the face of deflationary pressures and the weakness of the financial system, is still less than half its 1989 high. The bulls must be hoping that Tokyo's experience is not an omen.

OBSERVER

All you need is Luzhkov

If Moscow's mayor Yury Luzhkov wins the Russian presidency in 2000, watch out for a U-turn in the Kremlin's Korea policy. After spending half a century helping to deepen the chasm between North and South, Moscow might try to help them kiss and make up. Luzhkov seems to think that reunification is inevitable.

South Korea is looking for a new embassy – its palatial pile near the beautiful Patriarch's Park is a bit cramped – and the practical-minded Luzhkov has come up with a helpful wheeze.

He has offered a site in the functional diplomatic ghetto along Mosfilmovskaya – and right next to the North Korean embassy. In due course, "it will be sufficient to take down the fence to make one united embassy complex".

"We do not take this proposal seriously," was Seoul's frosty response yesterday, so it doesn't sound as if the mayor is helping to soothe the tense relations between Russia and South Korea. The two countries have been having a bit of a dust-up over mutual allegations of espionage and, this week, South Korean foreign minister Park Chung-soo was sacked for mishandling the affair.

Suspicious Muscovites – and there are quite a few – wonder whether offering to put the South Koreans where it would be easy for North Korea to spy on them is Luzhkov's way of getting back at Seoul for expelling a Russian diplomat in the spying row.

Short terms

Tony Czura, 40, the new British-born chief executive of Geneva's Société Générale de Surveillance, kept his head down yesterday, which is perhaps understandable given SGS's record of picking chief executives and then spitting them out.

The world's biggest inspection and testing company brought in Patrick Rich – formerly of Alcan Europe – in 1988, but he only lasted a year. His forceful management style and plans to become a major player in the US insurance business upset the founding families and he was ousted in a boardroom putsch organised by Elisabeth Salina Amorini, a young lawyer, who took over as chairman.

Four years later, SGS tried again with ex-McKinsey man Thierry Chéreau but he fell out with Salina and didn't last much more than a year. Since then Amorini – whose grandfather, Jacques Salmanowitz, ran the company for nearly 50 years – has been flying solo.

Czura's prospects look a little better as he knows the group well. After a spell as an analyst with London brokers Quilter, Goodison, he joined SGS in 1983 and is credited with turning round its North American operations and stemming insurance loss-adjusting losses.

His first big test comes next month when SGS unveils its new corporate strategy in Zurich. Salina has always dominated these set pieces and her decision to retain the title of *administrateur delégué* – a sort of souped-up chairman – suggests that she doesn't intend to sink gracefully into the background like other Swiss company chairmen.

Playground fight

Mexico's presidential race in 2000 could be a battle between childhood friends from the two biggest dynasties in modern Mexican politics.

Following Miguel Alemán's win in state elections in Veracruz, the ruling Institutional Revolutionary Party (PRI) has its eye on him as a possible candidate. His father, also Miguel, was nicknamed "Puppy of the Revolution" when he became Mexico's first post-World War II president and industrialised the country. The nickname was a nod to his father, General Miguel Alemán, a tireless rebel against Mexico's former dictatorship.

If the "puppy's" son runs, his main rival is likely to be the black sheep of the PRI's "revolutionary family", Cuauhtémoc Cárdenas. He quit the PRI in 1987 and founded the left-wing Party of the Democratic Revolution, now the second biggest party in Congress. His father Lazaro, president in the 1930s, is the most revered Mexican leader this century.

As children, Cuauhtémoc and Miguel played together in the presidential palace. Next time, they might be playing for bigger stakes than marbles and sweets.

Ground force

It seems that Microsoft isn't content with taking over the world's computer desktops, it's taking aim at the stuff you drink while tapping at the keyboard.

The software monolith is thumbing its nose at one of its neighbours in Seattle – Starbucks, the US's top coffee house – to team up with Borders, the bookshop-cafe chain, to sell a new brand of coffee called Windows 98 Roast.

Why anyone would want to drink a brew named after such a boring product is hard to imagine, though Bill Gates's latest software moneyspinner has been surrounded with as much froth as a cappuccino.

In another bit of marketing hype, the manuals for Windows 98 are being distributed with a jazz CD that includes the smooth sounds of Dave Brubeck, Ray Charles and the Modern Jazz Quartet. It's labelled "Music to Install Windows 98 By", though there's no advice on how to play it while your CD-ROM drive is otherwise occupied.

The Financial Times

100 years ago

Corrupt And Inept Mandarins
Dr. Donaldson Smith, an American explorer who has recently traversed Mongolia and Manchuria, had some interesting things to say about the latter province. He tells us that the Russians are doing all in their power to colonise. The Chinese population, so far from being hostile, are apparently pleased at the prospect of getting quit of corrupt and inept Mandarins. With regard to the natural resources, valuable gold deposits have been discovered, there is a quantity of soft coal of inferior quality, and timber is abundant, cheap and apparently extremely poor.

50 years ago

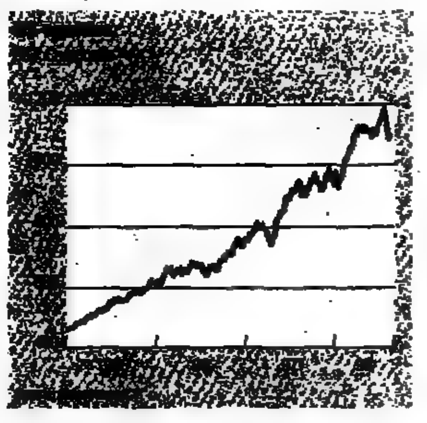
Italian Labour Talks Fail
Rome, August 5. It appears that talks which have been proceeding for some days between the Christian Democrats and the Communists in the Confederation of Labour have broken down completely. It is now believed that the split in the Confederation brought about by the general strike and rioting after the attempt to kill Signor Togliatti will result in the Christian Democrats setting up an independent trade union organisation.

FINANCIAL TIMES

THURSDAY AUGUST 6 1998

THE LEX COLUMN

Half correct



We are not in a bear market – at least not yet. US stocks have fallen around 9 per cent from their mid-July peak. But this barely qualifies as a correction, usually defined as a 10 per cent drop. Moreover, the slide has been gradual, with none of the panic selling seen last October. The S&P 500 index is still up more than 10 per cent for the year and most European markets have done much better.

Arguably, this setback is exactly what is needed. The relentless rise in US share prices since 1995 has disconnected valuations from fundamentals. Once prices fall back into line, investors should be able to refocus on a still positive backdrop: decent non-inflationary growth, high returns on capital and enviable liquidity. That should allow stocks to resume their upward march from a more solid base.

Whether this level has been reached yet is debatable. Although US investors seem to be treating Asia more seriously, there is still too much optimism about corporate earnings. Analysts' forecasts of double-digit earnings growth for this fourth quarter and 1999 will, inevitably, be downgraded, creating room for further disappointment.

And valuations are still pretty ambitious: the forward price/earnings ratio for the S&P 500 is still around 22 times. Another concern is the narrowness of the US market's advance, which leaves it vulnerable to problems at a small number of favoured blue-chips.

All of this suggests a creeping correction may persist for some time. That is still greatly preferable to an outright crash.

Standard Chartered

"Emerging market bank, with Asian focus": for sheer unfashionability, that takes some beating. Hence the superficial logic for the 40 plus per cent slump in Standard Chartered's share price since mid-April. But superficial is the operative word; the half-year figures hardly bear out investors' worst fears. Attributable profit may have fallen 10 per cent on a year earlier to £264m but this included a big jump in bad debt provisions and adverse sterling movements. At constant exchange rates, pre-provision profits were up 44 per cent.

Considering that most of the bank's leading markets were in recession, strong revenue growth across the group was some achievement. The star performer was foreign exchange, where profits more than doubled as the bank capitalised on a strong franchise in volatile markets. It is fair to question how sustainable these profits are. But if volatility subsides enough to damp them, other parts of the business will benefit – for example, margins in the Hong Kong mortgage market.

Fortunately for Standard Chartered, the stench hanging over Asia will probably deter predators. But investors with any risk appetite need not be so retiring. True, the next six to 12 months will still be difficult in Asia. At 26, though, the shares are on an undemanding price/book ratio of 2.3. For a bank with excellent growth prospects and strong management, that is a steal.

SGS

About once every four years Société Générale de Surveillance, once a stalwart of the Swiss stock market, appoints a new chief executive. The latest one, Antony Czura, has a tougher job than his two short-lived predecessors but – ironically – that should increase his chances of survival. This time there is an air of crisis that should support a radical reappraisal of the family-controlled group. It has underperformed the Swiss market by about two thirds since the start of 1997 and yesterday's profits warning rammed home its continuing problems.

All this points to the failure of Elisabeth Salina Amorini's attempt at collegial decision making by an eight-strong executive board. The hope is that Mr Czura will be given a free hand in conducting his review and implementing change. Mrs Salina, who still heads the company, will have to resist the temptation to look over his shoulder.

And all those other directors must accept that some corners of the empire must be cut and others built up. Indeed the executive board itself should be slimmed down. The challenge is for the company to make its global network adaptable and more technically advanced, so that changes in commodity trade flows no longer confound it.

UK engineers

Whatever the Monetary Policy Committee announces today, UK engineers have little to cheer. Since the June interest rate rise, the sector has underperformed the market by 16 per cent. At a 38 per cent discount on a price/earnings basis, there may seem only upside on offer to investors. A pound nearer DM2.70 would certainly give a welcome fillip to manufacturing competitiveness and enhance the value of foreign earnings. But there is a danger that sterling fixation means investors ignore the impact of slower economic growth on earnings.

Picking winners from such a diverse group is not easy. But yesterday's good results from GKN – earnings growth of 15 per cent – give an insight into why it is valued at a sizeable premium to the sector. It has minimal Asian exposure. Its local production means the company suffers only from the translational effects of sterling strength. And unlike general industrials, such as Siebe or Weir, its exposure to the capital goods investment cycle is limited. Furthermore, itsinvestments in fast-growing powder metallurgy, pallets and waste management will limit the impact of economic slowdown and the General Motors strike on its main automotive business.

Few others are as well-placed. Unless Asian demand recovers rapidly, there is little apart from bid speculation and defence consolidation to encourage investors. The downgrades will continue even if sterling falls.

Thai bail-out plan seeks to lure overseas investors

Central bank offers majority stake holders money-back guarantee

By Ted Bardacke in Bangkok

Thailand's central bank yesterday attempted to attract foreign capital into the troubled banking system by offering a five-year money-back guarantee to foreign investors who take majority stakes in Thai financial institutions.

Under the plan – details of which are expected to be released this month as part of a comprehensive state bail-out of Thailand's banking sector – five years from now the central bank will offer to buy back Thai bank shares bought by foreign investors at their original price.

The repurchase offer is in bahts and the central bank will not pay interest to buyers who want to be reimbursed.

Thailand was the first Asian economy to be hit by the regional crisis, and has been the most pragmatic in trying to lure foreign investors back into the country.

Thai banks need massive amounts of new equity but efforts to secure foreign capital have stalled because investors are scared about the rising level of non-performing loans. Officials said they hoped the guarantee would rekindle foreign interest in Thai banks.

"The authorities are finding incentives to help Thai banks recapitalise by making it easier for them to mobilise foreign funds. Now everyone worries that investment in Thailand will be lost," said Kitti Patpongpibul, deputy governor of the central bank.

The move is likely to have an immediate impact on the impending sale of Thailand's Bank of Asia to ABN Amro of the Netherlands, as the Dutch bank has a written agreement from Thai authorities that any "sweetheart" deal offered to foreign investors will be applied retroactively to ABN Amro.

Bank of Asia officials said they still expected the deal to go through but that the terms of the agreement could be reworked, due to the central bank offer.

The offer is also expected to clear the way for an agreement for foreign investors – thought to be either the Bank of Nova Scotia or Standard Chartered Bank – to buy a controlling stake in the small Nakornthon Bank. Potential purchasers have been demanding some kind of government protection.

Mr Kitti, who announced the plan just one week after being appointed to his post at the central bank, is a former senior executive of Nakornthon. He declined requests to answer questions about his interest in Nakornthon.

Many analysts believe that yesterday's surprise announcement heralds other schemes aimed at protecting shareholders in Thai banks, ahead of a comprehensive bail-out. The government has said shareholders in banks that cannot attract new capital will lose out when the state intervenes.

The International Monetary Fund has endorsed Thailand's move to engineer a government bail-out of the banking system but has not yet commented on the guarantee plan.

Anoop Singh, deputy director of the fund's Asia-Pacific department, said yesterday in Bangkok that developing a plan for the banking system would be the focus of his current visit and that the option with the least cost to the government would be chosen.

Editorial Comment, Page 15

Shanghai foreign currency rise highlights fears of devaluation

By James Harding in Shanghai

Foreign currency deposits held by individuals in Shanghai have risen markedly in the first half of this year, demonstrating concern among the Chinese public that China may have to devalue its currency.

The value of these deposits in China's largest city reached $5.3bn by the end of June, up 18.2 per cent – about $700m – since the beginning of this year, according to the government-owned Business News.

Beijing has pledged to hold the renminbi, the Chinese currency, steady in the interests of restoring financial stability to Asia.

However, China's decelerating economy, the sharp decline in export growth in the first half of this year and the weakening Japanese yen have raised questions about how long the Chinese government will stick to its no-devaluation pledge.

The figures reported yesterday do not account for the large sums of foreign currency believed to be held in cash, much of it converted from the Chinese currency to US dollars on the city's black market.

Under-the-counter foreign exchange dealing has enjoyed a revival in the last year, as those Chinese who cannot open US dollar accounts have sought to protect their savings from a possible depreciation in the renminbi.

One measure of public scepticism about the government's promise not to devalue has been the difference in the US dollar-renminbi exchange rate at the bank and among the hawkers on the streets outside. Yesterday, for example, one dealer was quoting RMB8.7 to the dollar, compared with the official rate of RMB8.28.

China's banking authorities have recently signalled their alarm over unauthorised foreign exchange transactions.

Last week, the government announced new penalties against financial institutions that are discovered to have helped clients in changing change money illegally.

The abrupt halt in the growth of China's foreign exchange reserves in the last couple of months has also raised concern about the amount of foreign exchange either seeping out of the country or being held by companies as retained earnings overseas.

Foreign exchange reserves stood at $140.5bn at the end of June, down from $140.9bn at the end of May. Economists suggest that Beijing is determined to keep the level of its foreign exchange reserves high, in part to maintain public confidence in the Chinese currency.

Sickly Shanghai, Page 28

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Mary Robinson, UN High Commissioner for Human Rights, comments on the Kosovo refugees' plight. No hiding place, Page 2 Picture: Reuters

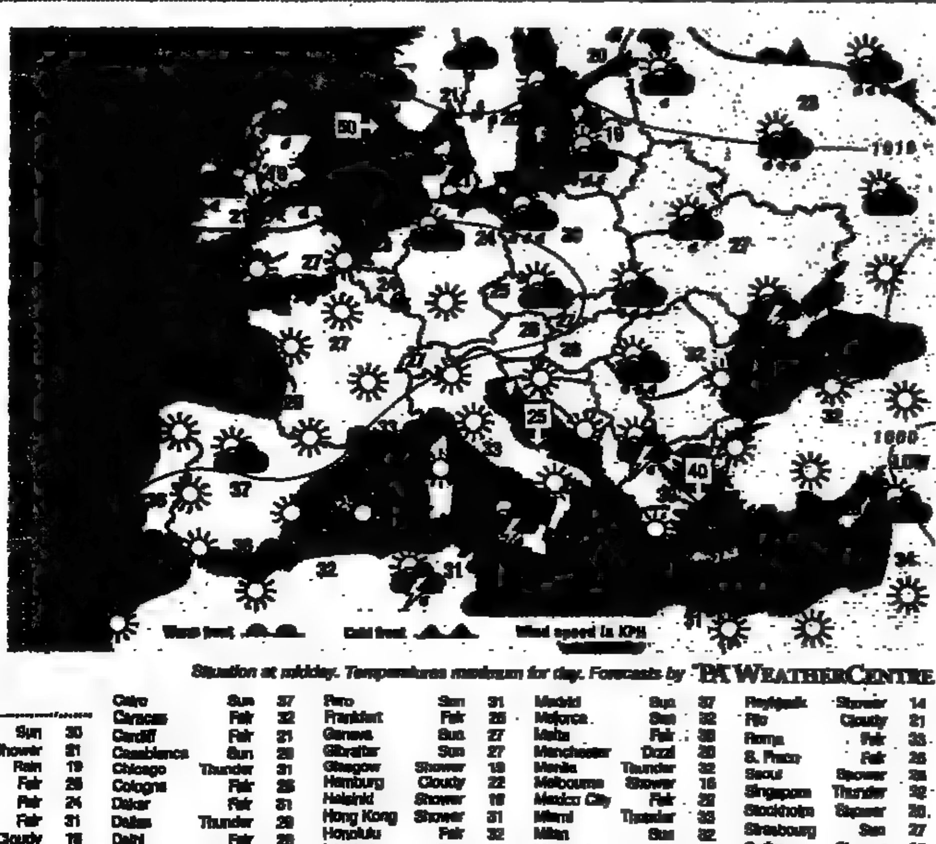
FT WEATHER GUIDE

Europe today

Scandinavia and north-eastern Europe will be cool and unsettled with heavy showers. Central and north-west Europe will be hot and sunny although Germany and Austria may have isolated showers. Most of the Mediterranean will be very hot and sunny but thundery downpours are possible in southern Italy and the Balkans. Eastern and north-eastern Europe will be unsettled with heavy showers and cooler than recently.

Five-day forecast

Most of Europe will be fine and very warm tomorrow with plenty of sun but northern Britain, Scandinavia and north-east Europe will be cooler with rain. There will be little change over the weekend, although much of western Europe will turn even hotter. The warm and sunny weather should also push into southern Scandinavia.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	41
Accra	Fair	26
Algiers	Sun	32
Amsterdam	Fair	23
Athens	Sun	39
Atlanta	Thunder	32
B. Aires	Fair	15
B.ham	Fair	24
Bangkok	Thunder	31
Barcelona	Sun	30
Beijing	Shower	31
Belfast	Rain	19
Belgrade	Fair	29
Berlin	Fair	24
Bermuda	Fair	31
Bogota	Cloudy	18
Bombay	Thunder	35
Brussels	Sun	24
Budapest	Fair	27
C.hagen	Rain	21
Cairo	Sun	37
Caracas	Fair	32
Cardiff	Fair	21
Casablanca	Sun	28
Chicago	Thunder	31
Cologne	Fair	25
Dakar	Fair	31
Dallas	Thunder	29
Delhi	Fair	29
Dubai	Sun	43
Dublin	Shower	21
Dubrovnik	Fair	31
Edinburgh	Shower	20
Faro	Sun	31
Frankfurt	Fair	25
Geneva	Sun	27
Gibraltar	Sun	27
Glasgow	Shower	18
Hamburg	Cloudy	22
Helsinki	Shower	18
Hong Kong	Shower	31
Honolulu	Fair	32
Istanbul	Sun	35
Jakarta	Cloudy	32
Jersey	Fair	22
Johannesburg	Fair	17
Karachi	Sun	36
Kuwait	Sun	48
L. Angeles	Fair	31
Las Palmas	Sun	31
Lima	Cloudy	18
Lisbon	Sun	35
London	Sun	27
Lux.bourg	Fair	24
Lyon	Sun	27
Madeira	Fair	26
Madrid	Sun	37
Majorca	Sun	32
Malta	Fair	38
Manchester	Drzzl	20
Manila	Thunder	32
Melbourne	Shower	16
Mexico City	Fair	22
Miami	Thunder	33
Milan	Sun	32
Montreal	Fair	28
Moscow	Shower	33
Munich	Fair	25
Nairobi	Cloudy	25
Naples	Thunder	35
Nassau	Fair	33
New York	Fair	30
Nice	Sun	30
Nicosia	Sun	36
Oslo	Shower	[illegible]
Paris	Sun	27
Perth	Shower	17
Prague	Fair	25
Rangoon	Cloudy	29
Reykjavik	Shower	14
Rio	Cloudy	21
Rome	Fair	33
S. Frsco	Fair	25
Seoul	Shower	28
Singapore	Thunder	32
Stockholm	Shower	20
Strasbourg	Sun	27
Sydney	Shower	18
Tangier	Windy	30
Tel Aviv	Sun	34
Tokyo	Thunder	29
Toronto	Fair	28
Vancouver	Fair	22
Venice	Sun	31
Vienna	Fair	28
Warsaw	Shower	20
Washington	Fair	31
Wellington	Fair	14
Winnipeg	Sun	28
Zurich	Sun	29

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Investors puzzled by hostile intentions of AlliedSignal

Investors and analysts are puzzled over the hostile tactics of AlliedSignal, the US manufacturer, in its $9.8bn takeover bid for AMP, the world's largest supplier of electric and electronic connectors. Hostile takeovers are increasingly rare in the US and several recent hostile bidders have been beaten off by white knight bidders. Page 20

Soccer super league rights battle

The news that a number of European soccer clubs have been approached about forming a super league has sparked anger within the game's governing bodies. One obvious bidder for the rights to such a league would be a new venture being talked about by Mediaset, the Italian television company controlled by Italian media mogul Silvio Berlusconi, News Corporation's Rupert Murdoch (left) and Prince Al Waleed of Saudi Arabia. Page 18

Moody's reviews Japan rail groups

Moody's, the US credit rating agency, has put the debt of three of Japan's private railways under review for possible downgrade, fuelling concern about the industry's losses from land holdings. The agency said the review was prompted by high debt levels at Hankyu, Tokyu, and Kinki Nippon Railway. Page 22

Aeroflot secures $350m loan

Aeroflot, the Russian airline, has secured a $350m syndicated loan from a consortium of international banks in the first significant transaction for a Russian borrower in the loan markets this year. But the success of the Aeroflot loan, which will pay for 10 new Boeing 737 aeroplanes, does not mean the market is reopening to other Russian borrowers. Page 26

The hazards of mining in Mexico

Banditry and kidnapping are not deterring north American mining companies from exploring one of Mexico's richest mineral belts, in the inhospitable Guerrero mountains. Their interest is a godsend to the state government, whose efforts to attract investment outside the tourism belt have been hindered by Popular Revolutionary Army guerrillas. Page 28

30-year bund contract from Eurex

Eurex, the new German/Swiss derivatives market, is to launch a futures contract based on 30-year German government bonds, or bunds, in October. The Euro-BUXL is the latest sign of Eurex's determination to become the leading European derivatives exchange after next year's launch of the single currency. Page 26

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MARKET STATISTICS

CHAIRMAN SAYS THE TELEBRAS PURCHASE PUTS THE SPANISH COMPANY WELL AHEAD OF COMPETITORS IN LATIN AMERICA

Telefónica defends acquisitions

By Tom Burns in Madrid

Juan Villalonga, chairman of Telefónica, yesterday brushed aside reservations over the high price the Spanish telecoms operator paid last week for parts of Brazil's privatised Telebrás network, saying he intended to increase the group's stakes in the newly-acquired carriers.

"From now on, there is only one global Latin-American operator and that is Telefónica," he said in a review of the group's Brazilian buying spree of close to $5bn. "All the others are a long way behind."

Telefónica-led consortia won majority voting control of Telesp, the prized fixed-line business of São Paulo state, and of Tele Sudeste Celular, the mobile operator in Rio de Janeiro and Espiritu Santo states, paying R$5.78bn ($4.9bn) and R$1.36bn respectively. The total of R$22.1bn paid for the 12 Telebrás companies was a 64 per cent premium to the minimum price set by the Brazilian government.

The Spanish operator has stakes in Telesp and Tele Sudeste Celular of 13.7 per cent and 14.1 per cent respectively. Mr Villalonga forecast that Telefónica would end up controlling 60 per cent of Telesp and 75 per cent of Tele Sudeste Celular when the final shareholder base of the two operators was fixed in the coming weeks.

His comments came after concern was expressed over the price Telefónica paid for its acquisitions by RBS, its Brazilian partner in Telesp, and by NTT and Itochu of Japan, minority members of consortium that won control of Tele Sudeste Celular.

Despite Mr Villalonga's comments, Telefónica shares fell 2.7 per cent on the Madrid bourse yesterday, dropping Pta200 to Pta7,190 in a weak market. The shares rose as high as Pta7,580 when the Telebrás deals were announced. Mr Villalonga said Telesp would double its lines to 11m over the next two years and its net profits would multiply by four over the period.

He said Tele Sudeste Celular would post a similar income increase through to 2000 as it lifted its subscribers from 980,000 to 2.3m. "There are five million Telesp clients waiting for a phone and one and a half million people who want a Tele Sudeste Celular mobile," he said.

Mr Villalonga said Telefónica would additionally manage Tele Leste Celular, the mobile operator in the state of Bahia that was bought by a consortium led by the Spanish generator Iberdrola. It would also hold a maximum 38 per cent stake in Telesp Celular, the São Paulo mobile operator acquired in the Telebrás sale by a consortium led by Portugal Telecom.

Telefónica is also negotiating a stake of around 10 per cent of Embratel, Brazil's long-distance operator that was acquired by MCI of the US, the Spanish group's strategic ally. "Telesp is Embratel biggest client," Mr Villalonga said. Analysts estimate that the Brazilian acquisitions will dilute Telefónica's earnings per share by 2 per cent this year, by 3.8 per cent next year and by 1 per cent in 2000.

Aetna stock rises as results strengthen

By John Authers in New York

Shares in Aetna, the largest US health insurer, leapt 8 per cent in morning trading yesterday as its second quarter results reassured the market that the worst is over following the company's troubled integration of US Healthcare.

Overall operating earnings for the second quarter were $153m, or $0.95 per share, comfortably ahead of the First Call consensus of $0.91. Once unusual items were excluded, operating profits were $177.5m, down from $185.6m in the second quarter of 1997.

Aetna's share price is still suffering the aftershocks of the $8.9bn acquisition of US Healthcare, the largest US health management organisation, in 1996.

Attention focused on its core healthcare business, where operating profits reached $104.6m, thanks to reduced medical costs. This was up from $100.5m in the first quarter, although still far behind the $131.8m the health organisation registered in the second quarter of last year.

Integrating the US Healthcare's operations into the rest of Aetna, a traditional health insurer, proved much more demanding and expensive than managers had thought, with the result that the company twice warned on profits. It took a charge of $275m for integration costs in late 1996, and a $108m charge for higher medical claims than expected in September last year.

Aetna has also been dogged by bad publicity about service delivery problems, although Richard Huber, the company's chief executive, has said the difficulties were largely caused by the company's ambitious attempt to establish a new single computer platform for processing its claims.

In spite of the problems, Mr Huber said the total number of people enrolled with Aetna had risen 4.1 per cent in the last 12 months to 4.77m.

By midday, Aetna's share price stood at $70¼, up $5¼ or more than 8 per cent for the day. However, it remains far below its high of $114, set in August last year.

The company was helped by strong results from its US retirement savings operation, and from its international insurance business. Aetna Retirement Services raised operating earnings by 27 per cent year-on-year to $72.0m.

Peter Sutch, chairman of Cathay Pacific: 'I cannot see any prospect of significant improvement.' Reuters

Cathay Pacific dives to first-half loss of $22.6m

By Louise Lucas in Hong Kong

Cathay Pacific, the Hong Kong-based airline, yesterday recorded a HK$175m ($22.6m) loss for the first half of the year – its first plunge into the red in more than two decades – and warned of another tough period ahead.

The Asian financial crisis, which has weakened currencies and depressed demand in the airline's big Asian markets, was largely to blame for the loss, which compared with a profit of HK$1.07bn at the halfway stage last year. It was sharply lower than analysts' forecasts. The dividend has been slashed from 11.5 HK cents to 8 HK cents.

Peter Sutch, chairman, said: "For the immediate future, and certainly for the second half of this year, the environment is expected to remain exceedingly tough, and I cannot see any prospect of any significant improvement."

Cathay is braced for the impact in the current quarter of Hong Kong's new US$20bn airport at Chep Lap Kok. It began inauspiciously last month when HACTL, the territory's biggest airfreight handler, declared a moratorium on imports and exports while it unravelled problems at its new cargo facility.

Mr Sutch said the mayhem cost Cathay Pacific HK$250m in lost revenues last month, but will exact a smaller toll this month.

But cargo chaos is only the start. Airport charges for Cathay Pacific at the new airport are around 70 to 80 per cent higher than before.

Hong Kong's sharp downturn in tourism, which began after the handover of sovereignty last July, has hurt both the hotels and airlines. The drop in business travellers has also had an impact.

Those still travelling, said Mr Turnbull, had a greater tendency "to move from the front end to the back (economy class)" resulting in lower margins.

However, Cathay Pacific said it remained committed to its purchase orders of new aircraft. The group has already cut costs by laying off staff and is constantly reviewing its routes. Many Asian routes are operating on slim yields.

Mr Sutch said: "The fact is there are Japanese routes which have never lost money in my memory which are now losing money."

Another option is joining an alliance. That is unlikely before Christmas, Mr David Turnbull, managing director, said: "We have a choice of choosing an alliance that currently exists or doing nothing, and I think doing nothing is the least attractive option."

The loss per share at the interim stage was 5.2 HK cents, down from earnings of 31.1 HK cents at the halfway stage last year.

Carriers plan alliance, Page 22

Interims down 4% at Standard Chartered

By George Graham, Banking Editor

Standard Chartered, the London-based international bank, saw its market capitalisation drop below £5bn yesterday. Its share price fell 20p to 603p in the wake of a 4 per cent drop in first-half profits to £416m ($686m).

The fall revived speculation that the bank, which this year was being eyed by Barclays of the UK and Citibank of the US as an acquisition, might prove an attractive takeover target.

But Standard Chartered's management, which reported a 44 per cent jump in pre-provision profits to £605m but a leap in bad debt provisions to £189m from £36m, reaffirmed their determination to stay independent.

"We are not interested. The fact is that when the market capitalisation has been high, people have been interested, and when it's low, that interest has disappeared," said Sir Patrick Gillam, chairman.

Rana Talwar, who will take over as chief executive, said: "It is true that at £6 a share we are more bite-sized than we are at £7 or £9, but we all firmly believe that from our point of view this is absolutely the wrong time even to consider doing anything of that kind."

Malcolm Williamson, outgoing chief executive, said: "It would be the steal of the year if anyone got us at today's share price."

Standard Chartered shook off the worst economic problems in its core Asian markets with a 32 per cent increase in first-half revenue to £1.21bn. Consumer banking held steady with profits before provisions of £213m, while corporate banking climbed 25 per cent to £197m before provisions. Treasury operations doubled before provisions to £223m thanks to strong foreign exchange dealing.

However, the bank made net specific bad debt provisions of £142m, and set aside another £50m in general provisions.

Mr Talwar said: "There is a flight to quality from which we are benefitting. Local banks are closing down or restructuring and several Japanese and European banks are withdrawing to their home markets."

But Sir Patrick said: "We do not expect the economic situation to improve in the immediate future. Indeed, in some countries it could get worse. The current turbulence leads us to be cautious about the short term."

As a sign of long-term confidence, however, he announced a 19 per cent increase in the interim dividend to 6.25p, on earnings per share of 25.8p (28.8p).

Shares veer sharply, Page 24
Lex, Page 16

Swedish paper group shares slide 6% after pricing alert

By Tim Burt in Stockholm

Shares in AssiDomän fell more than 6 per cent after the Swedish forestry products group warned that Asia's economic crisis and overcapacity in North America could exacerbate pricing pressures in the pulp and paper industry.

The company – a leading Scandinavian producer of carton board, packaging and liner paper – said demand was weakening in several sectors and was unlikely to pick up this year.

Shares in the group fell SKr13.50 to SKr201.

Lennart Ahlgren, chief executive, said improved pricing trends in the first quarter had been thrown into reverse in recent months by falling Asian demand for packaging paper.

In addition, he said surplus liner output in the US could persuade producers to increase exports to Europe, undermining selling prices there.

"We have seen weakness in European prices and reduced exports to Asia," he said. "There are signs of falling prices and we need to send warning signals for the second half that there is a big risk that negative trends will escalate."

Volatile demand helped reduce pre-tax profits 4 per cent to SKr827m ($105m) in the first half – considerably below market expectations of about SKr970m.

Lennart Ahlgren: warning signals

Although operating profits rose from SKr1.02bn to SKr1.11bn, margins shrank by 1 percentage point to 9 per cent as sales rose from SKr10.1bn to SKr11.6bn.

Several industry analysts expressed dismay at the figures and questioned the wisdom of AssiDomän's spending spree in recent years. The group has invested an estimated SKr20bn in acquiring bolt-on companies and refurbishing papermaking machines.

"These figures are a big disappointment and the company cannot blame the market entirely; they have not tailored their own output to demand," said one paper analyst in London.

Of the group's five main operating divisions, profits in the forestry and timber arm – the group's most profitable activity – were flat at SKr702m following average price falls of 8 per cent for sawn timber.

In packaging, profits rose sharply from SKr209m to SKr286m, but Mr Ahlgren said the division's market prospects were uncertain because of excess supplies and strong price competition.

Profits in Kraft Products, the paper sacks business, also increased strongly from SKr22m to SKr196m following contributions from acquisitions and pulp sales. But in the second quarter, operating profits fell SKr38m amid lower selling prices and higher costs.

Difficult conditions were also encountered in carton, which recorded a loss of SKr33m compared with gains of SKr54m last time, and barrier coating where profits rose from SKr43m to SKr45m.

Earnings per share fell from SKr6.5 to SKr5.

Pressure on pulp prices, Page 28

MEDICAL EQUIPMENT SWEDISH GROUP'S UNDERLYING RESULTS UP 11% AS GERMAN COMPANY BEATS EXPECTATIONS

Gambro, Fresenius post first-half advances

By Tim Burt in Stockholm and Tobias Buck in Bonn

Gambro, the Swedish medical technology group, yesterday announced an 11 per cent increase in underlying first half profits following the completion of its lengthy transformation from an industrial conglomerate to a healthcare business.

The company, formerly known as Incentive, saw operating profits from ongoing operations rise from *SKr814m to SKr901m* ($$113m) as sales increased from SKr10.3bn to SKr10.6bn *in the period to June 30.*

Meanwhile, Fresenius, the fast-growing German medical equipment group, *exceeded analysts' expecta*tion with first-half pre-tax profits up 24 per cent to DM269m ($151m).

The improvement at Gambro was dominated by contributions from Gambro's dialysis products and care services, which pushed profits in medical technology up from SKr775m to SKr818m.

Gambro's most commonly traded B shares, however, *fell SKr14.50 to SKr120 after* Mikael Lilius, chief executive, described the figures as unsatisfactory and warned *of margin pressures in the* second half.

He blamed the problems *on disrupted production of* dialyzers – filters used in dialysis products – and a weak performance cardiopulmonary care.

Mr Lilius has ordered a strategic review of the dialysis products business, leading to an accelerated restructuring of that business. He said operating margins in the group's main medical technology business would not improve before the year-end.

In the first six months, operating margins fell from 12.2 per cent to 9.1 per cent.

Group operating profits were flattered by a SKr83m contribution from MacGregor, the materials handling business. Last month Gambro announced the completion of its seven-year restructuring by selling a majority stake in MacGregor to Industri Kapital, the venture capital group.

Pre-tax profits fell from SKr11.7bn to SKr1.33bn – largely distorted by last year's SKr11.1bn gain on the *sale of Gambro's shares in* Asea Brown Boveri to Investor, its sister company in the Wallenberg sphere.

The effects of the disposal reduced earnings per share from SKr28.70 to SKr2.22.

At Fresenius, profits after tax rose 19 per cent to DM138m, on revenues of DM4.29bn against DM3.51bn last year. Fresenius' hospital and home care business brought in the bulk of revenues, with sales of DM1.02bn, up 22 per cent from DM834m last year.

Gerd Krick, chairman, said efforts to concentrate on the company's core activities – *pharmaceuticals and dialysis* treatment – had paid off.

The loss-making US home-care and diagnostics branches of the company's Fresenius Medical Care subsidiary were sold off this year, but not before driving FMC into the red, with a loss of DM43m.

However, analysts were happy with the results. "If you take extraordinary losses into account, FMC and Fresenius itself have been doing very well," said Oliver Maier, analyst with *Dresdner Kleinwort* Benson in Frankfurt. He forecast that growth would accelerate in the third and fourth quarter.

The shares slipped DM8 to DM290.

'Super league' the goal for Europe's TV groups

Rights to sports events are ever more important to broadcasters, write **Patrick Harverson, Paul Betts and John Gapper**

With every passing week, the value of the rights to sporting events such as national football leagues to Europe's nascent digital pay-television services and existing broadcasting networks becomes clearer.

The confirmation yesterday that Media Partners, the Milan-based consultancy, has held talks with a number of football clubs with a view to forming a European super league of 16 teams is only one element in a web of negotiations.

Italy has also become the centre of a political battle over the rights to broadcasting soccer matches on pay-TV, involving not only the state broadcaster RAI and telecommunications *group Telecom Italia, but* Rupert Murdoch.

Media Partners, which negotiated Europe's first pay-per-view football deal for the Italian league two years ago, is run by Rodolfo Hecht, a well-known figure in Italian media circles who has links with Silvio Berlusconi, the entrepreneur and former prime minister.

Although the company is not owned by Mr Berlusconi, its super-league initiative is believed to have his full support – not least because his club, AC Milan, stands to gain if the new competition gets *off* the ground.

Media Partners' plan has grabbed the attention of Milan and other big European clubs because its new competition offers participants two enticements not available in the existing European Champions League.

These are guaranteed entry into the competition every year and much more money from television and sponsorship fees. It thinks it can generate greater revenues for its competition than Uefa, European football's governing body.

The key, as ever, is television. A new league featuring all of Europe's best-supported clubs playing mid-week games, culminating in a knock-out stage in spring, would be an attractive programming proposition.

Analysts believe they would be willing to spend hundreds of millions of pounds to secure the rights *to such a competition* – which would probably be broadcast on a pay-per-view basis – with more cash going to the clubs involved.

For the moment, Media Partners is trying to win the support of the big European clubs. Yet the clubs remain wary of incurring the wrath of their domestic governing bodies and of Uefa, which are all opposed to the idea.

One obvious bidder for the rights to the super league – if launched – would be a new venture being talked about by Mediaset, the Italian television company controlled by Mr Berlusconi, Rupert Murdoch's News Corporation, and Prince Al Waleed of Saudi Arabia.

These partners are at the early stages of talks about taking a 20 per cent stake in Kirch Group, the German media company, to provide it with financing. The new group would become a pan-European broadcaster.

However, Mr Murdoch appears to be more concerned in the short-term *with negotiating rights* to the existing Italian football league – even though this league faces disruption if the European super league becomes real.

Telecom Italia, with the state RAI broadcaster plans to launch a new digital pay-TV platform called Stream to compete against Telepiù, the existing network, which is 90 per cent controlled by the French group Canal Plus.

But to make Stream viable – *it lost L200bn ($114m)* last year on turnover of L12bn – Telecom Italia is seeking to wrest the Italian pay-TV soccer rights from Telepiù when its current contract with the Italian football league ends next year.

With the help of its investment banking adviser, Morgan Stanley, Telecom Italia has proposed a L4,200bn package to the Italian league for the pay-TV rights for the next six seasons. The Italian league is to review the offer this autumn.

However, Mr Murdoch's possible involvement in the venture and in Italian football has provoked a political storm in Italy, with the establishment worried over the possible repercussions on the RAI state network.


Paolo Maldini of AC Milan, likely to be in any new league Allsport

Meanwhile, the discussions with Mediaset on the Kirch Group venture could *embrace other partners.* There are suggestions in Italy that TF1, the French television network owned by the Bouygues construction group, may be interested.

For the moment, it is unclear exactly which of the shifting negotiations and alliances will bear fruit, either in sporting rights or broadcasting ventures. The one clear thing is that sports are ever more vital to television.

Dutch steel group surges

By Jeremy Gray in Amsterdam

Healthy European demand, a shift upmarket and a big *acquisition* enabled Hoogovens, the Dutch steel and aluminium maker, to double its first-half earnings in spite of economic turmoil in Asia.

Net profit surged 99 per cent to Fl 386m ($192m), well above most analysts' expectations, on sales of Fl 5.67bn, up 26.5 per cent from a year earlier. Both its heavyweight steel and growing aluminium operations played a part in the gain.

Apart from higher prices for its products, the earnings surge was "the result of Hoogovens' policy to concentrate increasingly on products with added value", the company said.

Hoogovens, which over the past few years has put together an impressive list of alliances, said much of the first-half sales increase came from a prudent product mix and the consolidation of its 50 per cent stake in HB Holding (formerly known as Boël), the Belgian steelmaker which was acquired last year.

The impact from Asia had been "limited", the group said, adding that the main factors had been "the fall in the price of primary aluminium and the higher steel demand from Europe".

"While returns from the aluminium division more than tripled in the six months, the main profits driver remains output of crude steel and deliveries of its rolled product, which accounts for 83 per cent of operating profit."

Terence Sinclair, an analyst at Salomon Smith Barney *in London, said Hoogov*ens' shares were still undervalued after yesterday's 7 per cent rise to Fl 92.30.

"Market expectations of [Hoogovens'] share price need to be higher," Mr Sinclair said. Investors had not factored in the company's restructuring efforts of the past 18 months, he said, nor the absorption of HB Holding. Hoogovens' aluminium operations were also "making more money than people had *expected*".

Earnings from the aluminium business soared 347 per cent in the six months, to Fl 132m.

Hoogovens said the rise was driven by a shift to more added-value products and a recovery in selling prices.

Although primary aluminium prices have been soft this year, the Dutch company sells products made from the metal, where prices have been firm.

Sales of rolled and extruded aluminium products rose 5 per cent.

The first-half earnings "*provide a solid foundation.* Profits in the second half are likely to be comparable with those in the corresponding good period in 1997," the company said.

Skandia flat despite savings and assets rise

By Tim Burt in Stockholm

Skandia, Sweden's largest insurer, yesterday announced flat first-half profits in spite of sharply increased long-term savings and strong growth in assets under management.

The group, which *claims* to be the world's fourth largest unit-linked assurance company, *reported* pre-tax profits of SKr3.18bn ($401m) for the six months to June 30, down slightly from SKr3.25bn last time. Turnover rose 13 per cent to SKr42.2bn.

Although the operating result was almost unchanged at SKr3.91bn, *Lars-Eric Petersson, Skandia* chief executive, said underlying profits were up 35 per cent on a rolling 12-month basis.

The strongest growth was seen in long-term savings, where profits rose 19 per cent to SKr1.39bn amid strong demand for unit-*linked products, which offset* lower results in life assurance.

Assets under management, meanwhile, rose SKr76bn to SKr548bn. Property and casualty insurance also reported increased profits, up from SKr2.88bn to SKr2.98bn, while investment income remained steady at SKr3.82bn.

"The property and casualty insurance market is characterised by fierce competition," said Mr Petersson.

"But the strong investment return, combined with an improved technical result, has led to a better operating result than in the preceding year."

He added that the restructuring of that division had been completed following the sale of the group's Italian property and casualty insurance companies.

Premium income in property and casualty insurance fell from SKr11.2bn to SKr10.2bn. That was offset by increased premiums on long-term savings – up from SKr24.5bn to SKr28.4bn – while income from other savings products jumped from SKr1.72bn to *SKr3.59bn.*

Earnings per share rose to SKr4.34, up from SKr4.64. But Skandia shares fell SKr8.50 to SKr130.50, in line with the market.

Shipping losses hit Den norske Bank

By Valeria Skold in Oslo

Den norske Bank, Norway's leading financial services group, yesterday reported lower first-half net profits of NKr1.169bn ($154m), compared with NKr1.494bn last time.

The fall was due to heavy losses at its shipping business and a rise in interest rates. Weakness in the dry cargo market affected business to shippers.

The bank said a NKr170m loss in its shipping division and losses of NKr150m for risks associated with low oil prices and an interest rate increase, were the factors behind the decline.

At the same time, a rise in Norwegian money market rates earlier this summer hit net interest income, which fell to NKr2.12bn from NKr2.136bn.

"First-half profits must be considered satisfactory, in spite of heavy losses within shipping," said John Giverholt, chief financial officer and acting chief executive.

"I am particularly pleased that income on banking services and other products not based on interest rate margins has continued to climb, rising to 46 per cent of the group's total income in the second quarter."

The company expects margins to improve in the third quarter and to see the full impact of the adjustments by the fourth quarter, after interest rates are adjusted later this month.

Pre-tax profits before extraordinary losses rose to NKr1.351bn, from NKr1.395bn. After extraordinaries, they dropped to NKr1.184bn, from NKr1.505bn.

"The results before losses weren't that bad," said Ingemar Persson, bank analyst at Aros Securities in Oslo.

"It was a bit better than I expected. Vital *Forsikring* [the insurance unit] was significantly better because of unrealised capital gains from the first quarter.

● Christiania Bank, the country's second largest banking group, reported a 38 per cent rise in second-quarter net profit to NKr722m, reflecting large non-recurring items.

Operating profit before losses and profits on long-term securities rose to NKr759m, from NKr458m, while operating profits rose to NKr737m, from NKr541m, after a non-recurring item of NKr250m.

Profit from ordinary operations was similar to last year's *second half* taking into account income from the sale of converted shares and the *successful* outcome of a lawsuit, totalling NKr288m, and costs related to the bank's *150th* anniversary.

The bank controlled its loan growth and maintained the quality of the portfolio, it said.

NEWS DIGEST

SPAIN

Banco Central Hispano calls off FCC talks

Banco Central Hispano, the Spanish banking group, has broken off negotiations to build a large stake in *Fomento de Construcciones y Contratas*, one of the country's largest listed conglomerates. The withdrawal leaves the way clear for other domestic and *foreign groups which entered* bids earlier this year for the 28 per cent of FCC that had been put up for sale by Alicia Koplowitz, part-owner of the *conglomerate with her sister Esther.*

The contest was called off in May after Esther Koplowitz bought out her sister's stake for Pta136bn ($899m), giving her 54 per cent of FCC. BCH, which has an existing cross-share arrangement with FFC and had been one of the main bidders for Alicia's stake, subsequently began to negotiate the purchase of part of Esther's equity.

The bank will now sell its 3 per cent stake in the conglomerate and FCC will sell the 6 per cent it owns in Dragados, the domestic construction group 20 per cent-controlled by BCH. is *expected to buy part of the stake that* FCC will sell in the construction company and Dragados will pull out of a joint venture with FCC that was agreed *last year to develop* their international businesses.

The banking group was understood to have become impatient with alleged delaying tactics by Esther Koplowitz during its negotiations with FCC. But there was market speculation yesterday that BCH could have been upstaged by a rival seeking to buy into Ms Koplowitz's diversified business empire.

The conglomerate, which has widespread interests in urban services, cement and real estate as well as its core construction business, recently announced plans to *develop a large hotel group in partnership* with Argentaria, the domestic banking group and Barceló, a large Majorca-based tour operator. BCH is understood to have been opposed to FCC's move into the hotel sector.
Tom Burns, Madrid

ENGINEERING

Rising demand lifts Rauma

Rauma, the Finnish engineering group, yesterday reported a 14.5 per cent *increase in first-half profits following rising* demand for forestry machinery and crushing equipment. The company, which also makes construction equipment, *industrial valves and fibre processing technology*, announced pre-tax profits of FM364m ($67.4m) for the first six months of the year, up from FM318m last time, as sales climbed from FM4.9bn to FM5.4bn.

At the operating level, profits rose from FM338m to FM398m because of increased volumes in all divisions and the benefits of cost cutting last year. The sharpest increase was seen in forest machines, where profits rose 45 per cent to FM71m in the second quarter as papermakers increased output.

Heikka Hakala, chief executive, said contributions from businesses acquired last year would underpin further volume and profits growth in the second half. Earnings per share for the first six months rose from FM4.24 to FM4.87.
Tim Burt, Stockholm

SOUTH KOREA

Kepco soars on currency gain

Half-year net profits at Korea Electric Power (Kepco), South Korea's state-run electricity monopoly scheduled for privatisation by 2002, soared from Won110.5bn to Won474.7bn ($386m) on sales up 12 per cent to Won6,580bn. Analysts said Kepco had benefited from the appreciation of the Korean currency on its US dollar-denominated debt. The won has strengthened by nearly 40 per cent against the dollar since the end of last year.

Kepco has cut capital expenditures on plant expansion, while costs on imported raw materials, such as coal, remained weak. Kepco reduced spending by Won160bn by focusing on low-cost power facilities, such as nuclear and coal-fuelled plants, instead of those run by crude oil.

Analysts said the sharp jump in Kepco's first-half profits also reflected poor earnings a year ago, when profits fell by 67 per cent because of large tax payments and high *fuel prices.* **John Burton, Seoul**

TECHNOLOGY

US markets buoy Nice Systems

Nice Systems, the Israeli-based international developer and provider of digital recording systems, yesterday reported a sharp rise in first-half revenues and income, with the US market driving growth. Revenues grew 66 per cent to $47m. Net income jumped 115 per cent to $9.9m. Including one-time charges of $9.02m for acquisitions, reorganisation and relocation expenses, net income dropped to $900,000. The one-off charges were set *against second-quarter results, leading to a net loss of* $4m compared with a net profit of $2.45m for last year's second quarter. Revenues for the quarter jumped 60 per cent to $24m while net income, excluding one-off expenses, rose 106 per cent from $2.45m to $5.1m over the same period.

Meanwhile Elbit, the defence communications company, reported a sixth consecutive quarter of growth. Sales rose 15 per cent to $100.3m while net income increased 33 per cent, from $5.1m to $6.8m.
Judy Dempsey, Jerusalem

STEEL

Sales and shipments aid Ispat

Strong growth in sales and shipments helped Ispat, the *international steel group*, to a 49 per cent increase, to $140m, in second-quarter profits before interest, taxes, depreciation and amortisation. For the first half, profits rose 64 per cent $281m.

The group said *yesterday net sales had* climbed 33 per cent to $692m for the quarter, and by 38 per cent to $1.37bn for the six months. **Financial staff**

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COMPANIES & FINANCE: THE AMERICAS

Colombian energy groups sell 65% stake

By Adam Thomson in Bogota

A consortium of US-based Houston Industries and the Venezuelan based Electricity of Caracas has paid $545m for a 65 per cent stake in two electricity distribution companies in Colombia.

The two companies, Electrocaribe and Electrocosta, are the distribution arms of Corelca, the state-owned electricity company on the Atlantic coast. The government plans to sell 65 per cent of Corelca's generation and transmission divisions on August 19.

Corelca's sale has now put 48 per cent of Colombia's electricity distribution into private hands. Already, some 50 per cent of generation capacity is privately owned.

The latest sale adds to the US-Venezuelan consortium's growing portfolio of electricity operations in Colombia. Last year, it entered the local market with the acquisition of the generation and distribution company Epsa, for $498m. Combined, the consortium's distribution capacities now account for about 20 per cent of national demand.

Yesterday's sealed envelope auction values the two distribution companies at $1.07bn, well above the the government's minimum of $839m. They account for 15.3 per cent of domestic electricity demand, and are the least efficient of all Colombia's distribution companies. While the two companies cater for the region with the highest average electricity demand, electricity theft and poor debt collection have led to monthly losses of $35m. In total, the two companies accumulated debts of $776m.

"This investment has a high risk-return profile," said Stephen Edkins, utilities analyst at Santander Investment's Colombia office. "There is a good chance of being able to turn these companies around but the new owners will have to be aggressive."

Industry experts say the likely course of action will be to severe cuts in the workforce and to crack down on non-payment of bills.

The sale comes as both a success and a relief for President Ernesto Samper's outgoing government. Heavy losses in Corelca's distribution arms put added pressure on the country's mounting central government fiscal deficit, currently projected at 5.1 per cent of the country's GDP this year.

The sale also buries two weeks of controversy following the last-minute postponement of Corelca's original sale dates, July 23 and 28. The government was unexpectedly forced to push back its timetable when the country's public services superintendent, Jose Ricardo Tafur, refused to give the go-ahead on technical grounds.

The outcome of the sale clears the way for the second leg of Corelca's capital injection.

AlliedSignal's hostile bid draws frowns

Tactics over AMP seem out of place in a world of friendly mergers, writes **William Lewis**

Investors and Wall Street analysts spent yesterday puzzling over the hostile tactics being employed by AlliedSignal in its $9.8bn all-cash takeover bid for AMP, the world's largest supplier of electric and electronic connectors.

Some investors said they were concerned about the size of the 54 per cent premium being offered by AlliedSignal, but most of their focus appeared to be on the company's surprise decision to launch a tender offer.

Hostile takeovers are becoming an increasingly rare event in the US, with most of the large deals now being completed as friendly mergers of equals.

Data provided by Securities Data Company, the mergers and acquisitions information consultancy, shows that just 3.6 per cent of all announced takeovers in the US this year have been hostile, against 7.1 per cent in 1996 and 13.6 per cent in 1995.

In 1988, approximately 25 per cent of the 4,554 deals announced were hostile, SDC says.

The dwindling number of hostile bidders have also found victories increasingly elusive, with several in recent months being beaten off by "white knights".

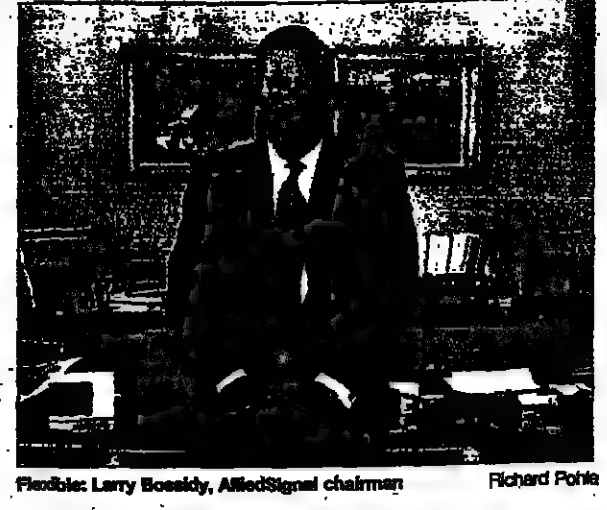
Last year Hilton Hotels lost out to Starwood Hotels and Resorts in its attempt to buy ITT Corporation, and SPX, the automobile testing equipment company, was thwarted in its bid for Echlin, a motor components manufacturer, by Dana Corporation.

In addition, M&A lawyers say the takeover laws in Pennsylvania, AMP's home state, mean AlliedSignal is facing an uphill battle to complete a hostile bid.

In May, Bank of New York called off its hostile approach to buy Mellon Bank, in part because the Pennsylvanian takeover laws made it near-impossible for it to launch a full-blown hostile bid.

More than in most US states, Pennsylvanian takeover laws permit company directors to consider the interests of stakeholders such as staff and local communities and not just shareholders.

AlliedSignal argues it has been forced into making a hostile approach because of AMP's refusal to talk.



Flexible: Larry Bossidy, AlliedSignal chairman — Richard Pohle

Larry Bossidy, AlliedSignal's chairman, said he received no reply to several phone messages he left for AMP executives. The group also hopes to avoid a "white knight" bidder, by stressing its "flexibility" over how much it is willing to pay and managerial changes.

Nevertheless, AlliedSignal is being forced to pin most of its hopes on the "consent solicitation process" under which it will be able to take control of the AMP board if it wins the support of 50.1 per cent of AMP shares. Experts say even if AlliedSignal is backed by enough shareholders, it will face difficulties attempting to remove AMP's "dead-hand poison pill" device.

Dead-hand pills are intended to ensure that only incumbent directors or their designated successors can redeem dilutive poison pills, though last month a Delaware court suggested in a ruling that they violate shareholder rights.

Investors and analysts now believe that despite being on the receiving end of a hostile bid, AMP is holding most of the cards.

Shares drop on bid fears

AlliedSignal's share price fell sharply in morning trading on Wall Street yesterday due to investors' concerns about aspects of its takeover bid for AMP, announced on Tuesday, writes William Lewis.

By lunchtime it had fallen $3⅞ to $36⅛, having closed down $3½ on Tuesday.

Investors said AMP would make a positive addition to AlliedSignal's mix of businesses, making it less cyclical and improving growth prospects. However, they are worried by the tough takeover rules in Pennsylvania, AMP's home state, and by the impact of the takeover on earnings. AlliedSignal said the acquisition would dilute earnings next year, but would be offset by asset sell-offs.

AMP shares were also down as investors scrambled to take profits following its 49 per cent rise on Tuesday. By lunchtime, its shares had fallen $3¼ to $39⅛.

AMP executives were said to be in meetings with advisers yesterday deciding how to respond to AlliedSignal's announcement. AMP failed to return phone calls but is thought to have appointed Credit Suisse First Boston as investment banking adviser.

Daimler-Chrysler plans new stock

By Nikki Tait in Traverse City, Michigan

Germany's Daimler-Benz and Chrysler of the US plan to issue "registered ordinary shares", a new type of internationally traded stock, to effect their $40bn merger.

The plan was revealed by Thomas Stallkamp, Chrysler president, at a University of Michigan seminar yesterday. The two companies are due to release formal proxy and merger documents, outlining the details of the deal, to their shareholders later this week, and possibly as soon as today.

Under the deal, Daimler is taking over Chrysler and the US automotive company's shareholders will end up with about 48 per cent of the stock in the new company.

When the deal was announced in May, US investors expressed some concern about receiving Daimler stock, which under traditional arrangements would trade as American Depositary Receipts on US stock exchanges. For smaller shareholders in particular, this could be cumbersome, exposing them to currency risks which would be difficult to handle.

At Chrysler's last annual meeting, held shortly after the Daimler deal was announced, Bob Eaton, Chrysler's chairman, admitted the two companies might need to look at a different solution.

Mr Stallkamp did not give details of the new stock, but said it would mean the "same shares" traded in Europe and the US.

In separate comments, senior executives from a number of the world's largest car producers admitted the Daimler-Chrysler announcement had galvanised the industry and caused everyone to review strategy and alliances.

Yoshio Ishizaka, president of Toyota's US operations, suggested some of the smaller Japanese players, struggling in current market conditions, might need to make hard decisions. Jack Smith, GM chairman, also said it had prompted a great deal of reassessment.

GM defends plan for restructuring

By Nikki Tait in Traverse City

Jack Smith, chairman of General Motors, the largest of the US vehicle manufacturers, yesterday launched an aggressive defence of the company's restructuring process, acknowledging that GM had been arrogant in the past and remained the "high cost" producer in North America.

However, he said the company wanted to lift capacity utilisation, "reshape" its car and truck model portfolio, consolidate some engineering functions and further shorten product development cycles.

He added that GM could not see any case for dropping an entire car line. There has been speculation that GM might phase out some of its weaker brands, such as Buick or Oldsmobile.

Mr Smith's comments came in the wake of debate generated by the costly strikes at two parts plants this summer.

Speaking at a University of Michigan seminar yesterday, Mr Smith accepted that GM was "nowhere where we need to be" on productivity performance – it lags behind both Ford and Japanese competitors operating in the US on most measures – but claimed that strategic decisions had been taken to improve this.

GM was looking at establishing new assembly plants, with 24-hour production, as well as increasing existing capacity utilisation beyond the current 94 per cent level, Mr Smith said.

But in comments which are less likely to reassure the company's critics, Mr Smith stressed that natural wastage "will be the major tool in getting where we need to be" on the labour productivity front.

While a significant portion of GM's hourly workforce is heading towards retirement, some analysts have suggested it needs to shed about 50,000 jobs in North America to meet current productivity levels at its toughest competitors.

Telemar seeks foreign operator

By Jonathan Wheatley in São Paulo

A consortium that bought control of the fixed line telephone company covering northern and eastern Brazil has begun looking for a foreign operator to join its controlling group, Luiz Carlos Mendonça de Barros, communications minister, said yesterday.

Telemar, a consortium formed by construction group Andrade Gutierrez, Brazilian investors and BNDESPar, the investment arm of the National Development Bank, paid R$3.43bn (US$2.94bn) for control of Tele North East at last week's privatisation of Telebrás, the holding company for Brazil's telephone system.

Telemar is the only winning consortium not to include a telecoms operating company and has been widely expected to seek a foreign partner. Mr Mendonça de Barros said: "A lot of people have been coming to see us, including US companies. A lot of companies that showed little motivation have begun waking up."

Through BNDESPar, the government holds a 25 per cent stake in Telemar. It is understood to be prepared to sell about 15 per cent to a foreign operator, although Mr Mendonça de Barros said the size of the stake on offer had not been fixed.

The privatisation of Telebrás was dominated by foreign operators such as Telefónica of Spain, Telecom Italia, Portugal Telecom and MCI. Others, such as BellSouth and France Telecom, had been tipped as strong bidders but failed to buy any of the 12 companies sold.

The sale of a stake in Telemar will be one of the last chances for foreign groups to enter Brazil before the sale of "mirror" licences for start-up fixed telephone operators, expected in December.

MCI, which bought the long-distance and international operator, is understood to be in talks with Telefónica and other groups.

NEWS DIGEST

MINING

Inmet plans buy-back to fend off Zemex bid

Inmet Mining, the Canadian metals group, said yesterday it would buy back up to 65m of its common shares in an effort to fend off a leveraged buy-out bid by Zemex, a Canadian minerals company. The C$367m (US$555m) buy-back offer for 63 per cent of Inmet's 103m outstanding shares represents a 28 per cent premium on Tuesday's closing share price of C$4.40.

The company is offering C$5.65 cash for each share and one purchase warrant for each 10 shares tendered. Inmet shares rose 35 cents to C$4.75 in midday trading yesterday after the announcement.

Inmet has been sitting on about C$535m in cash since the sale earlier this year of its 50 per cent interest in the Antamina copper and zinc project in Peru.

Earlier this year Zemex made a hostile C$5 a share cash and stock offer for Inmet. Zemex is currently attempting to engineer a merger by convincing Inmet shareholders to replace Inmet's board of directors in a special meeting next month. Inmet's share buy-back, if successful, would foil the Zemex strategy by removing most of the cash Zemex needs to finance the takeover.
Edward Alden, Toronto

ADVERTISING

Ernst & Young chooses DMB&B

Global branding among the "Big Five" international professional services firms took a step forward yesterday when Ernst & Young announced it would spend more than $100m next year in advertising and branding. The move follows similar investments from PricewaterhouseCoopers and Andersen Consulting in recent months. Leaders of E&Y announced in New York that they had chosen D'Arcy Masius Benton & Bowles as its global advertising agency.

Several big investments in branding have been made in the professional services sector since it was shaken up by the merger of Price Waterhouse and Coopers & Lybrand, and the expected demerger of Andersen Consulting and Arthur Andersen. **Jim Kelly**

TELEVISION

CBS in the black

Although CBS reported second-quarter earnings 1 cent below Wall Street's expectations, analysts were pleased with the broadcaster's results and with an announced $2bn increase in its stock repurchase plan, now totalling $3bn. CBS reported net income of $4m, or 1 cent a share, compared with a loss from continuing operations of $11m, or 4 cents a share, in the corresponding period.

Revenues rose 16 per cent from $1.28bn to $1.48bn, while earnings before interest, taxes, depreciation and amortisation grew 22 per cent to $275m. Free cash flow grew about 60 per cent over last year's second quarter.

CBS said its affiliated stations would share the costs of obtaining National Football League broadcast rights for the next eight years. The company would pay the NFL about $4bn over eight years. The shares fell 4.5 per cent, down $1½ to $32⅜, in early trading. **AP-DJ, New York**

FINANCING

Donaldson Lufkin & Jenrette

Donaldson Lufkin & Jenrette has asked us to make clear that it was lead manager for both debt and equity portions of the ICO Global Communications financing reported in Tuesday's FT.

Standard Chartered

Group results for the first half of 1998

"Standard Chartered's results for the first half of 1998 reflect the strength of the Group. In the light of this impressive performance we are increasing the interim dividend by 19 per cent to 6.25 pence per share. The current turbulence in Asia leads us to be cautious about the short term, recognising that we face a challenging environment. However, we remain confident about both the fundamentals of Asia and the long term prospects for Standard Chartered."

Sir Patrick Gillam,
Chairman, Standard Chartered PLC

Consolidated profit and loss account (unaudited) for the six months ended 30 June 1998	**6 months ended 30.6.98 £ million**	**6 months ended 30.6.97 £ million**	**6 months ended 31.12.97 £ million**
Interest receivable	1,957	1,579	1,821
Interest payable	(1,201)	(912)	(1,118)
Net interest income	756	667	703
Fees and commissions receivable, net	204	216	229
Dealing profits and exchange	238	134	218
Other operating income	7	16	10
	449	366	457
Net revenue	1,205	1,033	1,160
Administrative expenses:			
Staff	(321)	(301)	(309)
Premises and equipment	(78)	(82)	(83)
Other	(171)	(141)	(154)
Depreciation and amortisation	(30)	(31)	(32)
Total operating expenses	(600)	(555)	(578)
Profit before provisions	605	478	582
Provisions for bad and doubtful debts and contingent liabilities	(189)	(44)	(112)
Trading profit	416	434	470
Share of results of associated undertakings	–	1	8
Profits less losses on disposal or termination of businesses	–	–	(43)
Profit before taxation	416	435	435
Taxation	(146)	(134)	(135)
Profit after taxation	270	301	300
Minority interests	(6)	(8)	(9)
Profit attributable to shareholders	264	293	291
Dividends on preference shares	(8)	(8)	(8)
Dividends on ordinary shares	(62)	(52)	(132)
Retained profit	194	233	151
Earnings per share	25.7p	28.9p	28.5p

Summarised consolidated balance sheet (unaudited) 30 June 1998	**30.6.98 £ million**	**30.6.97 £ million**	**31.12.97 £ million**
Assets			
Cash, balances at central banks and cheques in course of collection	365	374	311
Treasury bills and other eligible bills	2,847	2,789	2,506
Loans and advances to banks	11,134	11,733	9,085
Loans and advances to customers	25,778	23,823	25,648
Debt securities, equity shares and interests in associated undertakings	3,275	3,383	3,320
Intangible fixed assets	54	–	–
Tangible fixed assets	341	327	310
Prepayments, accrued income and other assets	4,633	5,097	6,001
Total assets	48,427	47,526	47,181
Liabilities			
Deposits by banks	6,732	8,763	6,767
Customer accounts	28,947	26,924	27,543
Debt securities in issue	3,054	1,887	2,135
Accruals, deferred income and other liabilities	5,725	6,157	6,992
Subordinated liabilities:			
Undated loan capital	930	931	936
Dated loan capital	218	217	219
Minority interests	59	38	36
Shareholders' funds	2,762	2,609	2,553
Total liabilities and shareholders' funds	48,427	47,526	47,181

Figures for the 6 months ended 31.12.97 are arrived at by taking the full year 1997 and deducting the 6 months ended 30.6.97. The interim dividend of 6.25p per share (1997: 5.25p) will be paid on 16 October 1998 to shareholders on the register of members on 21 August 1998. Shareholders will be entitled, if they wish, to elect to receive shares credited as fully paid instead of some or all of the interim dividend. Details will be sent to shareholders on 3 September 1998. Copies of the Press Release containing full details of the results may be obtained from Computershare Services PLC, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh, EH11 4BR (telephone 0131 523 6666).

The financial information provided in this release for the year ended 31 December 1997 is based on the statutory accounts which were delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified and did not include a statement under sections 237(2) or 237(3) of the Companies Act 1985.

Standard Chartered

AVIATION STRATEGIC ALLIANCE WITH TAIWANESE CARRIER WOULD PROVIDE SIA WITH AN IMPORTANT REGIONAL BASE

Singapore Airlines plans to buy CAL stake

By Lawrence Eyton in Taipei and Sheila McNulty in Kuala Lumpur

Singapore Airlines said yesterday it planned to purchase a 5-10 per cent stake in Taiwan's China Airlines (CAL), as part of a strategic alliance.

The move – SIA's third strategic alliance, but its first involving equity – *includes code-sharing*, special fares, frequent-flyer programmes, and shared check-in facilities.

Financial details were not disclosed, but based on CAL's closing share price yesterday, a 5 per cent stake would cost approximately T$2.6bn (US$75m). The seller is likely to be the government-controlled China Aviation Development Foundation, which holds a 71 per cent stake.

Analysts said the alliance would provide SIA with an important mid-point for trans-Pacific routes and was in line with a general move by Singaporean companies to regionalise operations.

Taiwan also has an "open skies" agreement with the *US, which SIA might be able* to use to increase its trans-Pacific services.

"We each expect to increase market share," said Cheong Choong Kong, SIA deputy chairman and chief executive. "It demonstrates our faith in the long-term future of the aviation industry in this region." He said *SIA would also explore joint* ventures in airline-related businesses with CAL.

Sitting pretty: Cash-rich SIA is strengthening its position while other local carriers struggle to survive

SIA has a solid balance sheet, but like other east *Asian carriers it has been hit* by the sharp drop in passenger numbers on Asian routes.

Although it has shifted *capacity to stronger routes* in Europe, the US, Australia and India, its overall load factor dropped 3.6 percentage points to 68.1 per cent in June, compared with the year-earlier period, marking the ninth consecutive month it has reported a decline in operating efficiency.

Earnings were flat at S$1.04bn (US$603m) in the year to March 1998, compared with S$1.03bn in the year-earlier period.

However, SIA remains cash-rich and has moved aggressively to fortify its position in the region while neighbouring carriers are struggling to survive.

It already has entered alliances with Lufthansa in Europe, and with Air New *Zealand and Ansett in the* southwest Pacific. SIA has also expressed interest in acquiring a stake in Thailand's national carrier.

Moody's reviews ratings of Japanese rail groups

By Alexandra Harney in Tokyo

Moody's, the US credit rating agency, yesterday put the debt of three of Japan's private railways under review for possible downgrade, fuelling concern about the industry's heavy losses from land holdings.

The agency said the review was prompted by unusually high debt levels at Hankyu, Tokyu, and Kinki Nippon Railway, which also operate department stores, apartment buildings and resorts.

The move highlights the difficult conditions facing the rail companies, which have been hit by the collapse in the property market and the downturn in consumer demand. Commercial land prices in the Tokyo area fell 8.2 per cent last year, according to a government survey. Retail sales have fallen every month since April 1997, following an increase in the consumption tax.

At Tokyu, current income tumbled 35 per cent to Y20.2bn ($139m), on sales down 2.8 per cent to Y284bn last year. The group had a net debt to equity ratio of 380 per cent.

Hankyu, which reported profits unchanged at Y5.9bn on sales down 7 per cent to Y214bn, had a net debt to equity ratio of about 270 per cent. Kinki Nippon Railway had a 300 per cent ratio.

The rail companies were not only highly leveraged, but also too diversified, analysts said.

"Looking at some of these companies, they resemble Soviet-era state corporations. They do absolutely everything, from hotels to travel businesses, to photography. There is no real focus to their business," said Douglas Hayashi, industry analyst at HSBC Securities.

Moody's announcement came after the close of trading. Hankyu and Kinki Nippon Railway shares were unchanged at Y560 and Y638. Tokyu closed up Y3 to Y396.

Toyota Astra cuts workforce

By Sander Thoenes in Jakarta

Toyota Astra Motor, Indonesia's largest car producer, has cut its work force by 25 per cent in the face of a collapse in sales.

The joint venture between Toyota and Astra International said yesterday it had ended agreements with contract workers and encouraged natural attrition to reduce its work force from 4,000 to 3,000. Production has been suspended since June.

The company plans to resume production with 1,000 units of its most popular model, the Kijang family van, in September, because stock has been depleted.

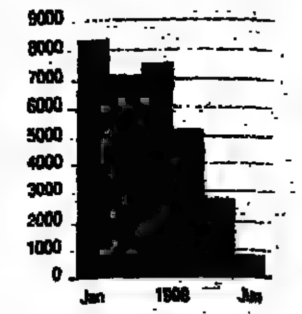
Competitors said Astra *planned to sell at least some* of these Kijangs in Malaysia, with Toyota's consent. The company could not be reached for comment.

Astra said the sharp drop in the rupiah exchange rate had inflated cost of imported components, forcing it to sell units at a loss.

Prices cannot be adjusted fully, as even at prices of just over $3,000, Indonesia's cars have all but stopped selling.

Herman Latif, chairman of the Gaikindo association of automotive industries, said nationwide wholesale had dropped to 2,000 a month, compared with last year's high of 40,000.

Indonesia's car crash
Total production



Source: Gaikindo

Indonesia's total production in June amounted to only 827 cars and Mr Latif predicted this year's sales would reach 50,000 at best, down from 386,000 last year. He added that 30 per cent of the industry's workforce had been laid off, and that more redundancies were necessary before the end of the year.

Astra said last week that it sold 10,804 cars in the first quarter of 1998, a slump of 62 per cent from 28,603 cars in the same period a year ago.

The company is trying to renegotiate payments on some $1bn in off-shore debt and acknowledged Rp2,000bn ($152m) in domestic debt.

Toyota last month denied rumours that it planned to take a larger share in the joint venture to help Astra relieve its debt burden.

Anglogold eyes Australian move

By Gwen Robinson in Kalgoorlie, Western Australia

Anglogold, the world's largest gold producer, yesterday signalled its interest in entering the Australian gold mining industry through a *strategic partnership or* acquisition.

The group, which listed yesterday on the New York Stock Exchange, sees an Australian venture as a logical step in its drive to expand its asset base and increase investor interest.

"Australia is the world's third or second largest gold producing country – it's simply too big for us not to be here," said Ian Cockerill, the group's executive officer for business development.

For Anglogold, which so *far has confined its* operations to South Africa and west Africa, an Australian joint venture or acquisition would have appealing synergies. Mr Cockerill said the growing shift among Australian companies toward underground mining, for example, provided opportunities for Anglogold's expertise.

Several domestic investment banks and medium-sized gold companies confirmed they had been approached in the past week to discuss partnerships.

Anglogold's Australian "window-shopping expedition" comes amid a shakeout in the Australian gold mining industry.

Growing difficulty in raising funds in the Australian market to finance exploration has forced many smaller companies into mergers and partnerships. Others have gone off-shore in new exploration ventures, turning to *foreign partners* in regions such as West Africa and Latin America.

Mr Cockerill told a meeting of nearly 900 gold mining representatives in the Western Australian mining town of Kalgoorlie this week that Anglogold would continue to cut cash costs and close uncompetitive African operations while increasing global exploration.

Anglogold expects to produce more than 6.5m ounces of gold in 1998 at an average cost of $243 an ounce and *aims to cut costs* by $30 an ounce next year.

Gold is currently priced at about $284 an ounce in international markets, but Mr Cockerill said he would not be surprised to see the price decline to about $250 owing to negative market sentiment.

Anglogold hopes its decision to list its American Depositary Receipts in New York will attract the capital injection necessary to expand operations.

It is the first South African company to list in New York Stock Exchange. In mid-morning trading yesterday, the shares stood at $21.50, against a listing price of $21.416.

Ayala flat at halfway stage

By Justin Marozzi in Manila

Ayala Corporation, the Philippines' largest listed conglomerate, yesterday announced flat first-half profits of 4.08bn pesos ($97m) after an extraordinary gain compensated for sharply lower earnings from the group's property arm.

The group's shares rose 4.3 *per cent to 9.7 pesos. Shares* in Ayala Land, the country's largest property group, improved 2.1 per cent to 9.8 pesos, in spite of a 44 per cent slump in profits to 1.48bn pesos.

The conglomerate said net profits would have been 15 per cent lower excluding extraordinary gains. The group earned 1.2bn pesos from the sale of Ayala Land shares in the first quarter.

Analysts welcomed the results, which they said confirmed Ayala's reputation as a solid, conservatively *managed* business.

"If you take any conglomerate operating in similar areas anywhere in Asia, Ayala Corporation has to be better than anyone else," said John Mangun, director of portfolio management at IB Gimenez Securities, a local brokerage.

Ayala Land, which usually contributes more than 50 per *cent of the conglomerate's* bottom line, was well placed to withstand the property market slump brought on by the regional economic crisis, according to property analysts.

"The property sector in the Philippines is on its knees and will lead to more distressed companies," said Rafael Garchitorena, property analyst at brokers Indosuez W.I. Carr. "But with a steady stream of revenues and gearing of less than 10 per cent, Ayala Land should be alive and kicking if and when the economy, and therefore the property sector, turns."

Bank of the Philippine Islands, regarded by analysts as one of the most sound local banks, reported a net income of 2.79bn pesos, up from 2.66bn pesos. Ayala estimated the bank's non-performing loans at 5 per cent, compared with the industry average of 9.7 per cent.

ABN Amro, which is forecasting full-year profits of 4.7bn pesos for the bank – representing a 3.3 per cent year-on-year gain – said first-half earnings were boosted by low provisioning for possible loan losses in the second quarter.

Cassandra makes an unwelcome comeback

Philip Coggan, Markets Editor, looks at the return to the investment menagerie of that endangered species, the bear

Tuesday's 300-point fall in the Dow Jones Industrial Average will stir hopes in an endangered species of the investment zoo: the bear.

The equity bull market which has swept Europe and the US since at least early 1995 – and on some measures, back to 1982 – has caught out some analysts and strategists who have proved too early in calling the top.

But at last, these modern Cassandras have at least the prospect of being proved right.

Part of the problem of making a bearish call is that it goes against the grain of the financial business. First of all, equity markets tend to rise over the longer term. So being a bear is rather like being a cricket captain who puts the opposition in after winning the toss; the tactic might work, but the odds are against you and everyone will call you a fool if you fail.

Second, the business you work for is likely to have an economic interest in a rising market. "Nobody likes a kill-joy," says Mark Brown, head of economics and strategy at ABN Amro.

"If you are bearish about the markets, it has a negative impact on the business generally."

"Corporate finance business is better in rising markets," points out Albert Edwards, global strategist at Dresdner Kleinwort Benson. "Investment management fees are based on funds under management and thus go up when the markets are rising."

A strategist or fund manager whose bearish views prove incorrect also faces the potential wrath of clients. Tony Dye, chief investment officer at PDFM, the fund management group which has been warning of a stock market correction since 1996, must be sick of stories predicting his demise.

ABN Amro's Mr Brown, who admits he has been too bearish about the absolute level of the UK market for 18 months, produced a note earlier this year, entitled Confessions of a Strategist, explaining why he had been wrong.

Life has certainly been difficult for stock market strategists in recent years. Wall Street's relentless rise has long since taken it off the scale in terms of traditional valuation methods.

The UK market recorded an all-time low for the dividend yield in March, something which proved to be a sign of a market top in both 1972 and 1987; but the FTSE 100 index still managed to chalk up a record high in July.

Investors have been conditioned to good times for so long, as profits have grown thanks to lower interest rates and corporate restructuring, that they may have become complacent

Cynical commentators have snorted at talk of a new era, in which low inflation, the use of technology, more efficient corporate management and demographic patterns favouring savings combine to produce the ideal climate for equities.

Talk of previous new eras has been misplaced in the past, notably in the 1920s and 1980s on Wall Street and in the 1980s in Japan. In retrospect, such discussions have served only to rationalise rising markets.

"The only reason that people think there is a new era is that the stock market is at ludicrously high valuation levels," says Mr Dye.

At the heart of the bearish case is that, while it might be true that inflation has fallen and that interest rates are low – both good omens for equities – corporate earnings simply cannot grow rapidly in such circumstances.

The global economy is spluttering, in the face of the Asian crisis, and companies face intense competitive pressures, making it difficult to increase prices.

Dresdner's Mr Edwards thinks the Dow, which recently peaked above 9,300, could fall to 6,000 or below.

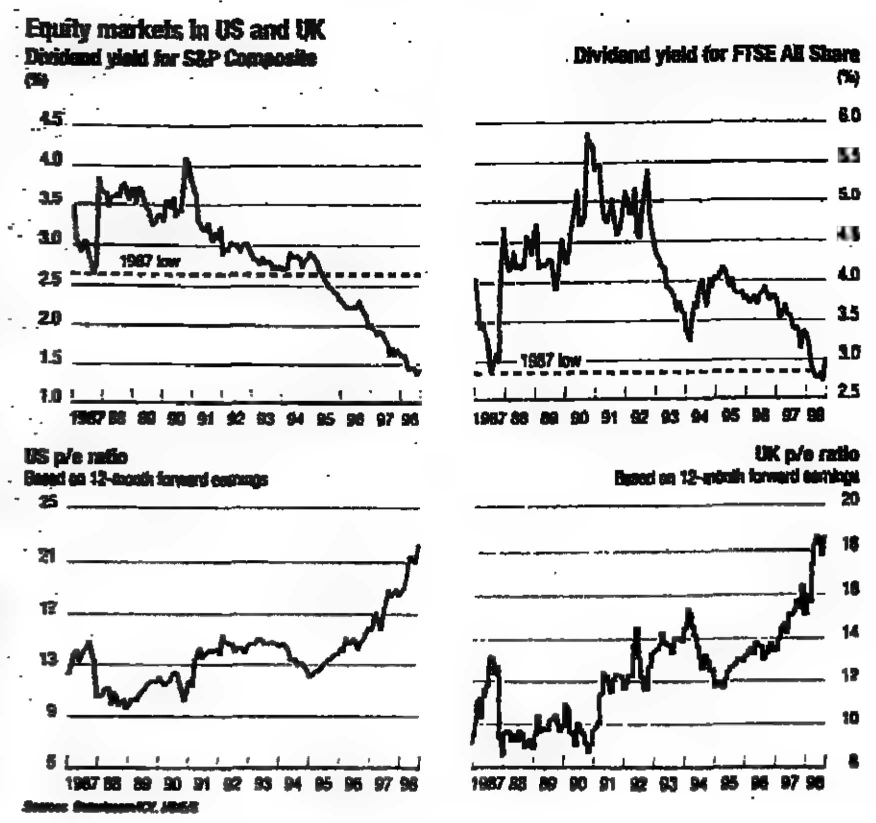
"The US is 10 years behind Japan, where in the late 1980s, bond yields fell and that allowed the price-earnings multiple to expand rapidly," he says. "But it took time for earnings expectations to come down. Eventually, as in Japan, the market will face a day of reckoning."

Part of the problem is that investors have been conditioned to good times for so long, as profits have grown thanks to lower interest rates and corporate restructuring, that they may have become complacent.

"The US market is trading on a high price-earnings ratio at a time when profits are themselves at a high level relative to the economy, always a dangerous combination," says Mr Dye.

The UK market faces its own problems – the strength of sterling, rising wage pressures and higher interest rates are squeezing profit margins.

As James Montier, global strategist at BT Alex Brown, points out, there is a big gap between the earnings expectations of "top down" economists like himself and the "bottom up" views of analysts who follow individual companies.



While UK economists are cutting their economic growth forecasts for next year, the consensus "bottom up" forecast for UK corporate earnings growth in 1999 is still 12.2 per cent.

This could, just could, be the time when reality sinks in. But the bears have been disappointed before, notably when the market recovered rapidly last year from a bout of Asian-induced wobbles.

However, for some bears, any short-term rebound will not negate the longer-term picture. Mr Dye's message is simple: "Stock markets are more highly valued than they have ever been in recorded history. Therefore, the returns going forward will be much lower than normal."

GKN seeks lead EU defence role

By Andrew Edgecliffe-Johnson and Ross Thomas

GKN said yesterday that it would play a "proactive role" in the expected consolidation of the European armoured vehicle industry, as the automotive parts, defence and industrial group delivered first-half pre-tax profits up 13 per cent to £230m ($380m).

CK Chow, chief executive, said the victory of a consortium embracing GKN to supply armoured personnel carriers worth up to £2.7bn to the British, French and German armies had put it in "a very good position" in the looming defence shake-out.

He said GKN had not reopened talks with Vickers, which makes the British Army's Challenger II tank, but that any sale, acquisition or joint venture would have to be good for shareholders and create a more competitive company. He added that he "would like to see a strong entity in Germany which I could do business with".

Negotiations were continuing with Finmeccanica of Italy about the creation of a joint venture with its Agusta helicopter subsidiary.

Group sales rose 6.7 per cent to £1.8bn.

Cadbury reassures on US soft drinks unit

By Susanna Voyle

Cadbury Schweppes, the confectionery and soft drinks group, yesterday reassured a market worried about the performance of its US soft drinks division.

Announcing interim results hit by the strength of sterling, John Sunderland, chief executive, said that a 2 per cent fall in volume from its 7-Up lemon drink was compensated for by 6 per cent growth from Dr Pepper, the group's leading branded beverage.

Underlying group pre-tax profits rose 8 per cent to £254m ($419m) – but at constant exchange rates the increase would have been 13 per cent.

The fall in 7-Up sales was smaller than some analysts had feared and the shares yesterday rose more than 3 per cent in a falling market to close up 27p at 864p.

Cadbury said some of the loss of sales of 7-Up was caused by distribution problems. While Dr Pepper was distributed by Coca-Cola, which had had a strong first half, 7-Up was distributed by Pepsi and independent bottlers who had turned in weaker performances.

Mr Sunderland said Cadbury was involved in active talks with the bottlers to ensure that performance targets were met. "It is not a question of withdrawal, it is a question of getting them to perform," he said. "We are going to be less lenient about poor performance than we have been in the past."

The group – which this year took a 40 per cent stake in a joint venture which bought two independent bottlers – said it was ready to take part in further consolidation in the industry.

Mr Sunderland said his acquisition priorities remained the same – looking for deals to fill in gaps in markets where Cadbury had a presence. However, he said deals were harder to come by because of the high multiples in the market and the scarcity of opportunities.

"It is not surprising that our rate of acquisitions is currently slower than in the recent past," he said. "We will not chase poor value – however, we have several irons in the fire."

Mr Sunderland said a share buy-back was still under consideration.

Turnover for the 24 weeks to June 20 rose 1 per cent to £1.85bn – but the increase would have been 8 per cent at constant exchange rates.

Pre-tax profits fell from £853m to £270m – including a £16m profit on the partial disposal of Cadbury's investment in ITNet, its former information technology services division. The 1997 figure included £412m profits on the sale of the Coca-Cola and Schweppes Beverages bottling concern.

Standard Chartered on a roller-coaster ride

But the cloud of uncertainty over Asian economies reveals some silver lining

By George Graham, Banking Editor

Standard Chartered's shares had a roller-coaster ride on the London Stock Exchange yesterday, after the bank reported pre-tax profits of £416m ($686m) for the first six months of the year, down from £436m.

In morning trading, the bank was one of only two stocks to ride out the market's plunge, as investors welcomed the way it had shrugged off the worst of the economic crisis affecting its core Asian markets.

By the end of the day, however, opinions had reversed. While the market recovered, Standard Chartered dropped, ending 20p lower at 603p.

Standard Chartered's management have strong stomachs by now, after seeing their share price swing between £10.39 and 543p in the past year.

Malcolm Williamson, who steps down in September after five years as chief executive, said yesterday that he had set out to create "a well managed bank with no surprises". He has achieved that, leaving behind the banana skins which used to strew Standard Chartered's path.

However, with the future of the Asian economies so uncertain, the bank cannot remain unaffected.

"We have run the businesses very well, but the economies have declined and continue to decline," said Sir Patrick Gillam, chairman. "We don't expect the economic situation to improve in the immediate future; indeed, it could get worse.

"This leads to inevitable uncertainties in relation to our revenues, particularly from foreign exchange, and our provisioning levels."

Profit before provisions rose 44 per cent and revenues 32 per cent, at constant exchange rates. The treasury division produced particularly strong profits, more than doubled to £205m, thanks to buoyant foreign exchange dealing. Analysts were sceptical about how durable these dealing profits would prove to be.

However, Peter Wood, finance director, argued that the volatility which had boosted foreign exchange profits had also depressed interest rate spreads, especially in the Hong Kong market. Lower exchange rate earnings volatility in future could be offset by a recovery in lending spreads.

"The conditions which make it possible to make that much money in foreign exchange also make it hard to make as much in interest spread."

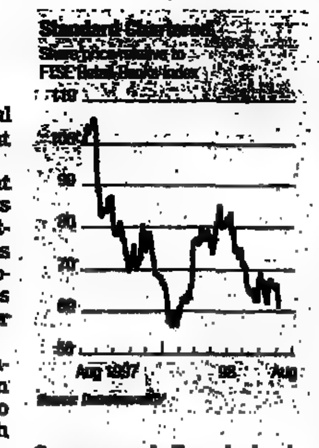
Net new provisions for specific bad and doubtful debts, however, rose from £50m to £142m, and Standard Chartered added another £50m to the £100m general provision it had set aside at the end of last year.

Mr Wood pointed out that credit quality in key sectors such as Hong Kong mortgages and credit cards remained strong. "The proportion of mortgage balances 90 days in arrears is 0.06 per cent in Hong Kong."

However, the level of non-performing loans has risen sharply from £626m to £936m, mostly in Asia, with a rise of 42 per cent in the bank's corporate loan book.

Standard Chartered is also reaping some benefits in some sectors from Asia's difficulties. It has gained blue chip clients in the treasury area, and has added high quality trade financing loans to its books, as Japanese, German and French banks have fled the region.

But the bank's performance will remain overshadowed by the uncertainties which face its biggest Asian markets – a cloud that appears likely to deter both investors and potential predators.



Insurance deal eases Hanson liability worries

By Vanessa Houlder

Hanson, the building materials group, yesterday announced an innovative £168m ($277m) insurance deal designed to free it from its legacy of environmental liabilities in the US.

Investors welcomed the news as removing a source of uncertainty that has overshadowed the company's performance. The deal, which cost Hanson less than expected, sent the shares up 13p to 336p.

The agreement, which provides £488m of insurance cover in return for a one-off premium of £168m, was struck with Centre Solutions, a member of the Zurich Group, and Swiss Re, two of the world's largest reinsurance companies.

Hanson inherited the environmental liabilities from Beazer, which it bought in 1991. The problems concern 119 sites contaminated in the 1950s and 1960s by wood treatment businesses owned by Koppers, a company bought by Beazer in 1988.

The insurance agreement is unusual in that it transfers both the funding of the clean-up costs and the risk relating to the environmental liabilities to the reinsurance companies. The insurers will pay for the remedial work, with the exception of the first £61m, which Beazer will pay. Beazer will continue to manage the remedial work on the sites.

Andrew Dougal, Hanson's chief executive, said that the comprehensive nature of the insurance deal allowed the company to put the problem behind it.

The agreement was "the last piece of the jigsaw needed to make us a fully focused buildings material group", he said.

The original provision made by Hanson following the Beazer acquisition was £1.32bn. By the end of 1997, it had used £269m of this.

As more cost-effective approaches to dealing with contaminated groundwater were introduced, the company was able to release £639m of those provisions in 1996 and 1997, leaving a balance of about £412m at the end of last year.

As a result of yesterday's deal, £97m of these provisions will no longer be required, creating an exceptional credit.

MBO talks at Zurich Re London

By Christopher Adams

The London-based arm of Zurich Re, the reinsurance operation of Zurich, the Swiss financial services group, is negotiating a management buy-out of the business.

Dennis Purkiss, chief executive of Zurich Re (London), one of several regional divisions operating under the reinsurance umbrella, is leading the buy-out attempt, which could be completed before Zurich merges with the financial services arm of BAT Industries in the autumn.

Candover Investments, the venture capital group which supported the £103.5m management buy-out of CE Heath, the insurance broker which went private last year, would be the lead equity partner.

Since its formation in 1980, Candover has led 79 buy-outs with a total value of £3.5bn. Earlier this year, it acquired the northern newspaper business of United News & Media for £360m.

Zurich Re (London) had net assets at the end of last year of $342.5m. It earned premium income of £380.4m, accounting for about 20 per cent of Zurich's total revenue from reinsurance.

Speculation about the future of Zurich's London-based reinsurance operations has been mounting since the group announced in May that it was reviewing how Eagle Star Re, the reinsurance arm of Eagle Star, the composite insurer owned by BAT, would fit with its own business. Zurich, advised by Donaldson Lufkin & Jenrette, refused to comment.

LucasVarity to exit truck brakes

By Juliette Jowit

LucasVarity, the car and aerospace parts group, yesterday put its truck brakes business up for sale with a price tag estimated at £100m-£110m ($165m-$182m).

The company also said it had created a separate automotive division to consolidate its remaining vehicle business, concentrating on the car industry.

Victor Rice, chief executive, said: "We have concluded that our heavy vehicle braking systems division cannot alone sustain a leadership position in a sector that is undergoing rapid consolidation.

"Recently we have received strong expressions of interest in this business from a number of third parties. We would expect to reach agreement on a sale during this year."

Analysts said the US-based business could be expected to fetch "at least" £100m-£110m, in line with the industry average of 0.5-0.7 times sales of £170m last year.

The division employs 1,800 staff, mostly at the headquarters in Dayton, Ohio, and a plant at Cwmbran in south Wales. It supplies leading truck makers including Mercedes, Volvo and Renault.

The group began its move away from heavy vehicles last year with the sale of Perkins Engines, the diesel specialist, for £800m.

Analysts welcomed the move to focus more on high-margin, light-vehicle markets. "This is a sort of core business. It shows they are prepared to take an even more radical view perhaps than we'd originally thought, it suggests they are more committed to shareholder value," said one.

The company said the new LucasVarity Automotive division would bring together the light-vehicle braking systems, aftermarket sales, diesel systems and electrical and electronic systems.

British Biotech names chairman

By Clive Cookson

British Biotech has recruited Christopher Hampson, a former director of Imperial Chemical Industries, to succeed John Raisman as non-executive chairman.

Mr Hampson, who is chairman of RMC, the building materials group, joined the board of the biotechnology group this week. He will become chairman when Mr Raisman retires on September 30.

His priority will be to help find a new chief executive in place of Keith McCullagh, who leaves British Biotech on September 23. Mr McCullagh has been at the centre of the dispute that has raged over the past few months over whether the company misled investors about the prospects for drugs in development.

Mr Hampson, a 66-year-old Canadian citizen, joined ICI in Canada in 1956 and retired from the chemicals group as a main board director 38 years later. During the 1980s he was chief executive of ICI Australia.

His current responsibilities include non-executive directorships at BG and two Canadian companies, SNC-Lavalin and TransAlta.

British Biotech said Mr Hampson was asked to become chairman after a wide-ranging search that threw up several suitable candidates.

Analysts said British Biotech had done well to recruit a "solid heavyweight industry figure" to lead its revival.

But British Biotech shares fell with the market yesterday, closing 1p down at 33p – about one-tenth of their peak value in 1996.

The decline has been driven by doubts about the efficacy of the two main drugs the company has in development, marimastat for cancer and Zacutex for pancreatitis.

RESULTS

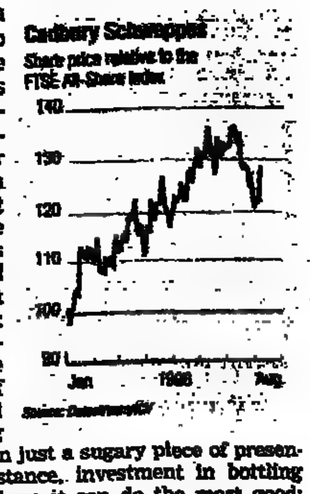
		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Allied Irish ♣	6 mths to June 30	-	(-)	401.3	(242.2)	30.6	(22.3)	8.1	Sept 25	6.8	-	17.7
C'bury Schweppes	24 wks to June 20	1,853	(1,884)	270♥	(853♥)	17.1	(47.1)	5.8大	Nov 20	5.5大	-	18大
Celtic Φ	Yr to June 30	27.8	(22.2)	7.13	(5.15)	2,265	(1,593)	-	-	-	-	-
Country Gardens	6 mths to June 30	31.6	(27.8)	4.1	(3.36)	19.4	(13.7)	0.7	Oct 1	0.6	-	1.25
Diagonal	6 mths to May 31	31.9	(17.6)	3.05	(1.07♠)	10.33†	(3.83)	1.4	Oct 2	0.8	-	2.6
GKN	6 mths to June 27	1,800	(1,687)	230	(203)	22.4	(19.5*)	5.75大	Oct 1	5.25*大	-	14.75大
Inspec	6 mths to June 30	161.3	(198.4)	3.77♠	(24.7)	0.1L	(11.62)	nil	-	2.25	-	6.75
Laporte	6 mths to June 30	381.4	(440.8)	66.8	(38.7♠)	24.9	(10.5)	9.25大	Nov 11	9大	-	25.75大
Minorplanet Φ	9 mths to May 31 ☆	2.7	(0.28)	0.69L	(2.18L)	1.85L†	(6.73L)	-	-	-	-	-
Oxford Molecular	6 mths to June 30	7.74	(6.17)	2.2L	(0.677L)	3.1L†	(1.1L)	-	-	-	-	-
Standard Chartered	6 mths to June 30	-	(-)	416	(435)	25.7	(28.9)	6.25	Oct 16	5.25	-	18.5
Stewart & Wight	Yr to Mar 31	0.547	(0.516)	0.469	(0.465)	21.52	(20.09)	9.5	Oct 23	8.5	9.5	8.5
TDG	6 mths to June 30	252.4	(254.8)	1.39♠	(15.1)	6.54L‡	(7.73)	4.75	Oct 1	4	-	9.5#
Woolwich	6 mths to June 30	-	(-)	240.4	(167.6♠)	10	(7.1)	3.5	Oct 12	3	-	9.5#

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
JF Utilities	6 mths to June 30	156.84	(132.91)	3.82	(2.41)	4.63	(4.18)	1.32♦	Oct 15	-	-	-
Mid Wynd Intl	Yr to June 30	599.2	(542.5)	0.443	(0.428)	8.82	(8.47)	4.8	Oct 14	4.5	8	7.5

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♣Irish currency. ♠After exceptional charge. ♥After exceptional credit. 大Foreign income dividend. †On increased capital. *After adjustment for share split. ΦAim stock. ☆Comparatives for 15 months to August 31 1997. ‡On reduced capital. #Excludes special. ♦Second interim; makes 2.64p to date.

COMMENT

Cadbury Schweppes



Cadbury Schweppes offered a plateful of comfort food to the market yesterday. The easiest portion to digest was its demonstration of defensive qualities. It turned unexciting volume growth of 3 per cent into an 8 per cent rise in earnings per share – about twice the expected average from UK companies this year. But a story of nip and tuck – on margins, interest costs and tax – would not have justified the market-defying 3 per cent share price rise. John Sunderland, chief executive, has convinced investors that the "managing for value" theme is more than just a sugary piece of presentation. In beverages, for instance, investment in bottling plant has been shifted to where it can do the most good: fuelling the rationalisation of US independent bottlers. And, having sorted out its relationship with the Coca-Cola bottling network, it is tackling problems with the Pepsi system.

The hope is that the new pattern of grasping nettles will be applied more broadly: to trimming the tail of underperforming brands, for instance.

Laporte/Inspec

Laporte's bid for Inspec is nicely pitched. The £650m price tag – including debt – implies a multiple of about 13.5 times earnings before interest, tax and depreciation. This is a tad higher than the most recent speciality chemicals deal – Hercules' acquisition of BetzDearborn. But it should help Laporte avoid a bidding war for Inspec, as happened with Allied Colloids where a far heftier price was eventually paid.

More importantly, Laporte's deal makes commercial sense. The sector needs to consolidate, not so much to derive economies of scale but because the customers are consolidating and want international suppliers. Inspec's portfolio in life sciences complements Laporte's, which also inherits Inspec's growing presence in the US and a strong sales and marketing team.

For Laporte, the importance of the deal lies in its growth potential rather than its cost savings. Jim Leng, chief executive, has already wielded the axe over costs and non-core assets, with a pleasing jump in margins. What he needed, and has now got, was scale to offset softness in Asia and pressures on some end-markets such as agrochemicals.

Laporte makes £611m agreed bid for Inspec

By Virginia Marsh

Laporte yesterday moved to create one of Europe's biggest fine and speciality chemicals businesses with the announcement of a £611m ($1bn) recommended cash offer for Inspec Group, its smaller rival.

The enlarged group will have annual sales of about £1bn and will be a leading European supplier to the pharmaceutical, life sciences and agrochemicals sectors.

The move is the latest sign of consolidation in the UK chemicals industry where valuations have fallen steeply in recent weeks in the wake of the financial crisis in Asia, the strong pound and the downturn in UK manufacturing.

The offer, at 340p a share, is set to end Inspec's chequered history as a public company. A £40m buy-out from British Petroleum in 1992, it was floated at 160p in 1994 but disappointed investors two years later with a profits warning, plans for a controversial share option scheme and a rights issue to fund the purchase of Shell's fine chemicals business.

However, it was re-rated earlier this year after it quit commodity chemicals to concentrate on higher margin businesses.

Jim Leng

Laporte – which has been through a wide-ranging reorganisation under Jim Leng, chief executive – had long been expected to make a sizeable acquisition after making nearly £300m of disposals in three years.

The deal was priced at a multiple of 11.5 times Inspec's operating profits last year. However, Laporte's shares fell 15½p to 640½p. Analysts said this was because the two companies also unveiled interim results depressed by Asia and the strong pound. Shares in Inspec rose 1p to 333¼p.

EURO PRICES

EQUITIES

Europe rallies with Wall Street

EUROPEAN OVERVIEW

by Simon Davies

European stock markets moved sharply lower yesterday, responding to the biggest drop on Wall Street this year, with little corporate news to inspire investors, and turnover continuing to reflect the holiday lull.

Most markets closed off their lows, reflecting the recovery in US equities. Nonetheless, the FTSE Eurotop 100 index fell 61.79 points or 2.17 per cent to 2787.71. The broader Eurotop 300 index closed 26.68 points lower at 1212.82, while the FTSE Ebloc 100 index, which includes stocks only from companies that will be part of the initial euro-zone, lost 20.65 points to 1026.14.

Stable Asian markets and a recovery in the yen were not enough to restore confidence for European markets, which have been hit by a series of disappointing profit results at a time when liquidity remains weak.

Banks and insurance companies, oil groups and telecommunications companies were all hit hard. The financials sector fell 2.5 per cent, although there was little news to drive it.

Telefónica continued to suffer from the response to what is perceived as a high-priced acquisition of Telebrás, with its shares falling Ecu 1.20 to Ecu 42.99.

The pulp, paper and packaging sector fell 3.5 per cent, after AssiDomän warned of pricing pressure following the slowdown in demand from Asia.

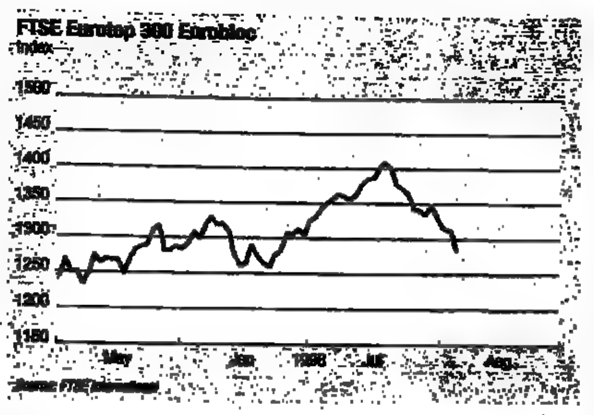
Integrated oil companies also fell by almost 3 per cent, reflecting continuing concerns over the outlook for the oil price.

David Bowers, European equity strategist at Merrill Lynch, said: "The European markets are finely poised. There is a deflationary wash through from Asia to the US and I don't think that Europe is immune. There are still earnings stories that have enabled it to decouple from the US market performance, but I don't think it will be immune from it."

Mr Bowers said that Merrill was still overweight in financials and consumer cyclical stocks, in order to benefit from the recovery in consumer demand in Europe.

He also predicted continuing country divergence, even after the launch of the euro, which could stoke differentials in growth rates around the region.

FTSE Eurotop 300 Eurobloc



FTSE Actuaries Share Indices — European series

August 5

National & Regional Markets	Ecu index	Day's %	change points	Yield gross %	xd adj ytd	Total rets (Ecu)
FTSE Eurotop 300	1212.82	−2.15	−26.68	2.37	19.69	1242.50
FTSE Eurotop 100	2787.71	−2.17	−61.79	2.37	27.43	994.31
FTSE Ebloc 100	1026.14	−1.97	−20.65	2.05	12.61	1038.80

FTSE Eurotop 300 Regions; FTSE Eurotop Industry Sectors: [illegible]

THREE MONTH EURO FUTURES (LIFFE); THREE MONTH EURO OPTIONS (LIFFE); FTSE EUROTOP 100 INDEX FUTURES (LIFFE); EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX): [illegible]

OTHER INDICES

[illegible]

FTSE EUROTOP 300

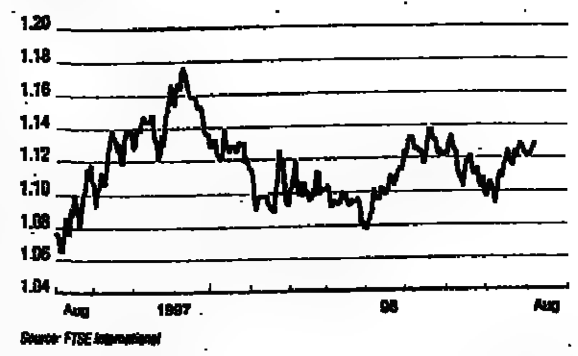
[illegible]

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

[illegible]

Synthetic Euro against the dollar

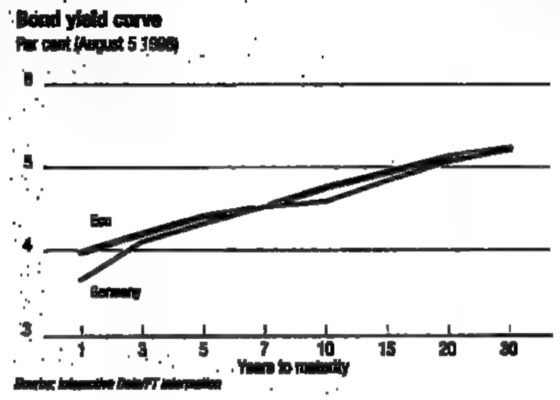


EUROZONE CURRENCY CONVERGENCE

[illegible]

BONDS

Bond yield curve



EUROZONE CORPORATE BONDS

[illegible]

GOVERNMENT BOND SPREADS vs ECU

[illegible]

EUROZONE CREDIT SPREADS vs ECU

[illegible]

Europe shrugs off Wall Street's fall

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

European bond markets shrugged off Tuesday's steep drop on Wall Street, ending steady to higher yesterday after dollar weakness against the yen held any hoped-for rally in check.

However, US Treasuries fell sharply in New York in the morning as US stocks staged a mild recovery.

Analysts attributed this to relative stability in Japan where the previous plunge on US equity markets did not spark an equally sharp sell-off.

Most agreed that the underlying tone for bonds remained firm, as emerging markets remain out of favour, Russia tackles its financial woes and Japan attempts to patch up its creaking economy.

Michael Derks, senior strategist at Nomura, said an additional factor in favour of bonds was that investors were apparently starting to view equities as over-priced.

"The Dow [Jones Industrial Index] has been sending a very strong message, that equities as an asset class are over-priced and there are some over-optimistic assumptions on [company] earnings contained in current prices," he said. "It's a tricky time for stocks and there are plenty of reasons to be in bonds, quite apart from what's going on in Japan."

However, the morning share rally sent US TREASURIES down by midday. The benchmark 30-year Treasury bond fell $\frac{3}{32}$ to 106⅞, sending the yield higher to 5.675 per cent.

Shorter-term issues also lost ground. The 10-year note slipped $\frac{7}{32}$ to 101$\frac{5}{32}$, yielding 5.449 per cent, while the two-year note fell $\frac{1}{32}$ at 99$\frac{23}{32}$, yielding 5.425 per cent.

Later in the afternoon session the focus will be on the day's main economic report, the Federal Reserve's "beige book". This is expected to shed light on the Fed's views of US economic performance. "It could help differentiate the effects of the [General Motors] auto strike from the rest of the economy," said Kevin Logan, economist at Dresdner Kleinwort Benson.

He said the report could reveal how widespread wage pressures are and the extent of the impact of the Asian financial crisis on US economic growth.

Early in the session the Treasury Department released its refunding schedule for August. It will sell $37bn in notes and bonds next week, including $15bn in 5-year notes and $10bn in 30-year bonds.

UK GILTS were lower as investors succumbed to nerves over the outcome of the Bank of England's interest rate deliberations, expected today.

The Bank's monetary policy committee is set to announce its decision on rates this morning. The market does not expect a rise, but Jeremy Hawkins, chief economist at Bank of America, said the markets – having been stung once already in June – were choppy all day.

"Gilts are poised for a fairly decent rally but they do need to feel more comfortable that rates have topped out before they can do it," he said.

He said the purchasing managers' survey, out yesterday and revealing that the service sector is slowing, would support a view that they have peaked.

The September 10-year gilt future settled down 0.21 points at 109.38 in volume of 53,000 contracts traded. In the cash market, the spread between yields on the benchmark gilt and bund contracts widened by two basis points to 121.

In GERMAN BUNDS, the benchmark futures contract hit a fresh high of 109.90 but fell back to end the day only slightly above the previous close.

Investors ignored local data out yesterday, including June industrial orders, which were down 1.1 per cent from May.

The September 10-year future settled up 0.03 points to 109.38 in modest volume of 376,000 contracts traded in Frankfurt.

Eurex to launch German contract

By William Hall in Zurich

Eurex, the new German-Swiss derivatives market, is to launch a futures contract based on 30-year German government bonds, or bunds, and is considering launching a futures contract on Italian government bonds.

The German government bond contract, Euro-BUXL, will be launched on October 2, and is the latest sign of Eurex's determination to become the leading European derivatives exchange after the introduction next year of the single currency.

This raises further questions about the future of the Euro Alliance between Eurex and France's Matif, which has also announced plans for new European long-term government bond contracts.

Earlier this week, Eurex announced that its German bund future had become the world's most heavily traded futures contract, and last week it announced a range of products on the Euribor and Euro-Libor interest rates, which it hopes will help it win business from the London International Financial Futures Exchange.

Jörg Franke, chief executive of Eurex, said the Euro-BUXL contract rounded out its range of interest rate derivatives and would enable it to cover the entire yield in the D-Mark bond market, which is the European benchmark.

Mr Franke denied that the launch of the new product threatened Eurex's alliance with Matif. He will meet Matif officials of the French exchange next week to discuss cross-membership.

Aeroflot wins $350m loan from banks

By Vincent Boland and Simon Davies

Aeroflot, the Russian airline, has secured a $350m syndicated loan from a consortium of international banks in the first significant transaction for a Russian borrower in the loan markets this year.

Bankers warned, however, that the success of the Aeroflot loan, which will be used to pay for 10 new Boeing 737 aircraft, did not mean the market was reopening to other Russian borrowers after several deals were postponed earlier in the year.

The Aeroflot loan was tightly structured so that ownership and registration of the aircraft – the security for the funds – are with a special-purpose vehicle in Bermuda. But it was given without recourse to a guarantee from the Russian government and includes no repossession insurance.

It was arranged by Chase, and the syndicate includes German, Austrian, Dutch, French, US and Japanese banks. Banks have been reluctant to increase their exposure to Russia, but this loan is understood to have attracted strong interest.

"The most difficult thing in a Russia deal is to get banks to use their valuable country limits. We were able to achieve that in this case," a banker at Chase said.

About $300m of the total is for 12 years and was guaranteed by the US Exim Bank. It was priced at 30 basis points over the London interbank offered rate (Libor). The remainder, for up to eight years, was advanced on commercial terms and priced at 450 basis points over Libor.

That is substantially lower than the levels at which Russian sovereign debt is trading. Spreads on Ministry of Finance bonds (MinFins) and other government debt have widened in recent days to well over 1,000 basis points – 10 percentage points – over the US treasury market.

Banks have been struggling with a long list of loan deals that were announced earlier this year but have had to be repeatedly postponed. Borrowers as large as Lukoil and Yuksi, two of the biggest companies in Russia, have struggled to secure finance after mandating banks to run loans at the start of 1998.

Michael Eggleton, head of fixed income for the former Soviet Union at Credit Suisse First Boston, estimates that between $700m and $1bn of public loans for the corporate and banking sectors will have been be rolled over in August and September. "Until sovereign yield spreads start to tighten, the sub-sovereign sector is unlikely to recover," he said.

Rates for unsecured lending look unpalatably high for many big corporate names, so those that are proceeding with deals are those that most need the cash. This adds to the risk profile of the market.

However, Aeroflot has shown there is still appetite for structured deals, where the domestic Russian risk is mostly offset. But new rules designed to increase tax revenues from energy-exporting companies could make it much harder for oil groups to raise loans secured on oil export receivables, as Gazprom, the gas giant, was able to do last year.

Fannie Mae braves volatility

INTERNATIONAL BONDS

By Vincent Boland

Highly-rated issuers dominated international bond markets yesterday as corporate borrowers stayed out, although the slide in US share prices did not impact greatly on spreads, which widened marginally.

FANNIE MAE, the US federal mortgage agency, priced its $3bn add-on to the 5-year benchmark bond at 27.75 basis points over treasuries. This was a quarter of a point above the upper limit indicated when the issue was launched on Tuesday, reflecting the more volatile market conditions.

The original $4bn issue was launched in April at 18 basis points over Treasuries, and the addition means that, at $7bn, the bond is the biggest non-government issue in the market.

"One of the reasons we reopened the April bond rather than have a new issue was to create a highly liquid bond, and investor demand was in the 3-5-year area," said Nadine Bates, a manager of long-term funding at Fannie Mae. "Where opportunities present themselves we will look at reopening other issues."

Some 58 per cent of the paper was sold to European and Japanese buyers, with the rest going to the US.

FEDERAL HOME LOAN BANKS also tapped the market with a $1.5bn issue that will be priced later today at 24 basis points over Treasuries.

● GREECE plans to relax its rules on drachma-denominated eurobond issuance to allow for larger sizes and more liquidity. Borrowers can currently issue bonds up to a maximum of Dr10bn, although supranationals can issue up to Dr30bn, AP-DJ reports.

The limit for all borrowers is likely to be raised to Dr30bn and the queueing system, which allows only one issue a day, will be reviewed in September, according to a senior official at the Bank of Greece. The result would be greater liquidity in a smaller number of bigger issues, which issuers and syndicate underwriters have been seeking.

The central bank also plans to disengage from the market when liquidity improves and more borrowers have issued drachma-denominated paper. Recent drachma-denominated bonds have been around Dr10bn in size, and the sector is proving popular as a play on European rates convergence.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Federal Home Loan Banks	1.5bn	(a)‡	(a)R	Aug 2001	0.15R	+24(5¾%-May01)	ABN Amro/Barclays
STERLING							
Alliance & Leicester Grp Tsy	75	6.50	99.767R	Sep 2015	0.625R	+80(8%-2015)	HSBC Markets
FRENCH FRANCS							
GECC	1.2bn	5.00	99.31R	Sep 2011	0.35R	+23§	Paribas
EUROS(e)							
Lehman Brothers Hldgs plc‡	450	(b)	99.769R	Aug 2008	0.35R	-	Lehman Brothers Intl
GREEK DRACHMA							
World Bank(c)	20bn	8.50	99.9775R	Aug 2001	0.1675R	-	RBC DS Global Markets
SOUTH AFRICAN RAND							
World Bank(d)	200	16.00	99.82	Aug 2001	1.50	-	RBC DS Global Markets
World Bank(f)	100	16.00∥	99.23	Aug 1999	1.00	-	RBC DS Global Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Priced today. b) 3-mth Libor +27p. c) Dr10bn launched 28/7/98 was increased to Dr30bn. d) R200m launched 21/7/98 increased to R400m. e) Payments in Ecu prior to Emu. f) R200m launched 16/7/98 increased to R300m. § Over interpolated yield. ∥ Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Aug 5	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.3259	5.05	-0.10	-0.15	-0.13	-0.05
	08/08	8.750	125.0322	5.44	-0.06	-0.10	-0.01	-1.04
Austria	07/00	5.875	103.3400	4.05	-	-0.02	+0.18	-0.14
	01/08	5.000	101.7800	4.76	+0.01	-0.04	-0.02	-1.02
Belgium	01/00	4.000	100.0600	3.96	-0.04	-0.03	-0.05	-0.07
	03/08	5.750	107.1100	4.81	-	-0.04	-0.02	-0.99
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

10 YEAR BENCHMARK SPREADS

[illegible]	[illegible]	[illegible]	[illegible]

EMERGING MARKET BONDS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	105.78	105.74	+0.07	105.83	105.60	97,220	137,075
Dec	105.27	105.27	+0.05	105.35	105.27	91,946	297

LONG TERM FRENCH BOND OPTIONS (MATIF)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Germany

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Italy

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Spain

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Japan

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	104.74	+0.06	-	-	6	16

US CORPORATE BONDS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US INTEREST RATES

[illegible]	[illegible]

INTERNATIONAL BONDS

Aug 5	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EIB	02/07	5.750	AAA	108.9100	4.74	+0.01	-0.06	+0.13
Spain	01/07	5.750	AA	108.8000	4.74	-	-0.06	+0.13
Philip Morris	[illegible]	6.375	A	101.9000	4.97	-	-0.04	+0.58
Finland FIM	09/02	3.620	AA	103.9721	3.70	-0.01	-0.05	-0.51
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]	[illegible]	[illegible]	[illegible]

FT Fixed Interest Indices

[illegible]	[illegible]	[illegible]	[illegible]

UK GILTS PRICES

[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

[illegible]	[illegible]	[illegible]	[illegible]

Wall Street slide knocks the dollar

MARKETS REPORT

By Simon Kuper

The dollar was still reeling last night from the biggest fall of the year on Wall Street on Tuesday.

The Dow Jones Industrial Average dropped more than 3.3 per cent that day, taking its losses for the past three weeks to more than 9 per cent. Even though it rebounded yesterday, the dollar continued to languish. Adrian Schmidt, senior economist at Chase in London, said: "The stock market weakness brought US bond yields down and that made assets less attractive to foreigners." Traders are wary of capital flight from the US.

They are also reluctant to sell the yen after Tokyo's recent efforts to emphasise that it still believes in intervening for its currency. On Friday Kiichi Miyazawa, the new finance minister, had questioned the use of intervention, hurting the yen.

The market is waiting for Keizo Obuchi, Japan's new prime minister, to outline fiscal stimulus measures in a speech to parliament tomorrow. Some traders expect a bold speech, prompting a rise in the yen, and then instant intervention to give the currency another hand up. Because they expect this, however, few of them are very long the dollar now. An intervention might therefore achieve little.

For most of the day the market was motionless. Traders are waiting for Mr Obuchi's speech and for today's outcome of the Bank of England's monetary policy commitee meeting. In addition, it is August.

The dollar closed in London at DM1.772 to the D-Mark and Y144.2 to the yen, down 1.1 pfg and Y0.9 on Tuesday's close and near overnight lows.

■ Does the dollar really move with the Dow? A new J.P. Morgan study concludes, more or less: "Up to a point, Lord Copper."

It says that a crash on the US stock market does not necessarily hurt the dollar if other stock markets crash too. For if that happens fund managers do not repatriate their money from the US.

However, if Wall Street falls more than other stock markets, then some money leaves New York, and the dollar does suffer. That is what has happened in recent days, says Rebecca Patterson, currency strategist at J.P. Morgan in London.

■ "Pound? What pound?" has been the attitude of the UK government since it took power last May. It has never tried to manipulate the currency, preferring to concentrate on inflation instead. As a result it has had to play down the damage that the strong pound has done to industry.

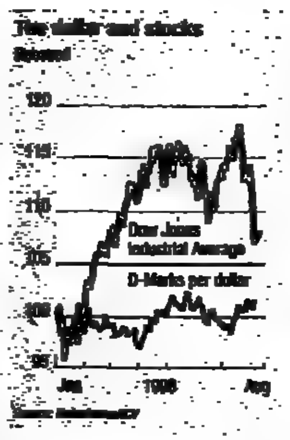
So it was again yesterday. Brian Wilson, the new UK trade minister, said: "I'm not pretending the strength of the pound is not an element of the challenge facing companies, but to blame it is an oversimplification of firms' problems." That makes a change from the last government, whose main priority between 1988 and 1992 was to keep the currency still.

Tim Fox, treasury economist at Standard Chartered in London, said the pound would probably suffer whether or not the Bank of England raised rates today. A rate rise would be seen as the last of the cycle, and would heighten fears of recession. But if rates stayed unchanged, many traders would think they had peaked and they would likewise sell sterling. "It's a lose-lose situation," said Mr Fox.

■ Central bankers seldom tell everyone how weak their economies are. But Hanna Gronkiewicz-Waltz, head of the National Bank of Poland, has taken this brave step.

Presumably hoping to weaken the zloty, near the top of its 10 per cent trading band, she said: "We had overconfidence in Hungary, which was said to be well equipped to transform from a central plan economy, then the Czech Republic, which was a model of transition. Now I am concerned this overconfidence may touch Poland and that there could be rapid devaluation."

She noted that the government planned to raise next year's budget deficit by 0.33 per cent of gross domestic product to 2.15 per cent. But the market all but ignored her. The zloty barely weakened from its all-time high, and now stands at 8.98/8.95 per cent above its parity against a basket of currencies.



■ POUND IN NEW YORK

Aug 5	—Latest—	—Prev. close—
£ spot	1.6355	1.6360
1 mth	1.6326	1.6330
3 mth	1.6272	1.6280
1 yr	1.6084	1.6074

■ OTHER CURRENCIES

Aug 5	£	$
Czech Rp	[illegible] - 50.3740	30.7030 - 30.7780
Hungary	352.754 - 353.227	215.620 - 215.790
Iran	[illegible]	[illegible]
Kuwait	[illegible]	[illegible]
Peru	4.8098 - 4.8158	2.9400 - 2.9430
Russia	[illegible]	[illegible]
[illegible]	10.2871 - 10.2912	[illegible]
U.A.E.	6.0088 - 6.0140	3.6715 - 3.6740

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	[illegible]	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	Sun Bank	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	TSB	7.50
Banco Bilbao Vizcaya	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Cyprus	7.50	●Hambros Bank	7.50	Unity Trust Bank Plc	7.50
Bank of Ireland	7.50	Heritable & Gen Inv Bk	7.50	Whiteaway Laidlaw	7.50
Bank of India	7.50	C. Hoare & Co	7.50	Yorkshire Bank	7.50
Bank of Scotland	7.50	Hongkong & Shanghai	7.50		
Barclays Bank	7.50	Investec Bank (UK) Ltd	7.50		
Brit Bk of Mid East	7.50	Julian Hodge Bank	7.50		
●Brown Shipley & Co Ltd	7.50	●Leopold Joseph & Sons	7.50		
Citibank NA	7.50	Lloyds Bank	7.50		
Clydesdale Bank	7.50	Midland Bank	7.50		
The Co-operative Bank	7.50	NatWestminster	7.50		
Coutts & Co	7.50	●Rea Brothers	7.50		
Cyprus Popular Bank	7.50	Royal Bk of Scotland	7.50		
Duncan Lawrie	7.50	Scottish Widows Bank	7.50		
		●Singer & Friedlander	7.50		

● Members of London Investment Banking Association

Asia puts pressure on pulp prices

By Gary Mead

The pall hanging over the global pulp industry was highlighted yesterday by two pieces of news from Sweden: AssiDomän turned in worse than expected half-year results and Sodra is to suspend production for two weeks at three mills, the second such halt this year.

Sodra's temporary shutdown of three mills will take 50,000 tonnes of pulp off the market during August-October, in addition to the 25,000 tonnes removed as a result of the earlier closure.

Back in April producers and analysts were optimistic that wood pulp prices had bottomed out at $550 a tonne, having fallen from $610 a tonne in December 1997. But pulp futures on Pulpex, the London-based electronic pulp exchange, are now down to $430 a tonne, for the September 1998 contract. In April, the same September contract was trading at $560 a tonne.

In Scandinavia, as in the US, paper and pulp producers have caught Asian flu; Sodra said its move was prompted by global oversupply, itself a consequence of the economic slowdown throughout Asia.

The pulp market – as in metals, softs and freight – has been wrong-footed by the Asian crisis, which is threatening to be longer-lived and more traumatic than suspected. AssiDomän's results were "shockingly bad," according to one analyst. "It means that things are much worse than might appear on the surface."

"There are a variety of factors coming together, with bad news across the board, according to Hakan Ostling, analyst with Goldman Sachs.

"Pulp is the only truly global commodity in the sense that Asian producers can compete head on with European and North American producers. What we are seeing are inventory bubbles building up in the system on the consumer side. Producer stocks have come down but only two key factors will prevent much more downside into 1999: the whole macroeconomic environment has to improve, and there has to be much more producer discipline," said Mr Ostling.

Part of the problem is that Asian pulp producers' costs have soared following their currency devaluations, and thus they have a strong incentive not to show much producer discipline. Indonesian pulp producers in particular have been stepping up production and selling at low spot prices, simply to cover their debt costs.

Sodra's reduction amounts to about 4 per cent of its total production. Of much greater significance was US pulp producer Georgia-Pacific's announcement on 30 July that it would close two plants indefinitely; a production cut of 500,000 tonnes.

"When the chips are down experience shows that pulp mills will significantly curtail their output. We should see a slight price recovery in October-November, which normally are two strong months. But for any real improvement we will have to wait until next year – and that's contingent upon Asia," said Nicholas Spoliar, analyst with Panmure Gordon.

Prospecting in bandit land

US mining groups are moving into Mexico's Guerrero mountains

Banditry and kidnapping in Mexico's inhospitable Guerrero mountains might deter some, but not intrepid North American mining companies, which are moving into the area in search of what they suspect is one of the country's richest mineral belts.

About 20 companies, mostly from Mexico, Canada and the US, are carrying out exploratory drilling for gold, silver, lead and zinc in the first big incursion into southern Mexico since miners were routed from the region by Mexico's 1910-1917 revolution.

In June, Teck Corp from Canada and Grupo Mexico (via their Minera Media Luna and Immsa subsidiaries) bid $3m and $4m, respectively, to win government concessions for the unexplored 42,800 ha Morelos Reserve in Guerrero.

The territory, between Mexico City and Acapulco, abuts the Mezcala Project, a big site under exploration by Mexicos Peñoles, the world's largest silver producer, and Newmont of the US. It has estimated gold reserves of 2m ounces.

Production at Mezcala, which was set to start next year, has been postponed because of an important new discovery, according to Peñoles. But when extraction starts in 2001 the mine is expected annually to produce 200,000 ounces. "Once Mezcala is in operation, we think it will be the largest gold mine in Mexico," the company says.

The march of mining companies into Guerrero is a godsend to the state government, whose efforts to attract investment outside the tourism belt have been hindered by the emergence of guerrillas two years ago – the Peñoles-Newmont mine alone has about $67m earmarked for investment.

But the prospecting has come at a price. Workers have been kidnapped and truck drivers are regularly held at gunpoint. Relations with the local communities, who consider the sub-soil wealth their birthright, have been strained. The tensions, miners say, reflect the gritty nature of Guerrero, which means "warrior" in English.

Much of the gold and massive sulphide belts in the state are in a poor area called *Tierra Caliente*, or Hot Land – fitting for the locals' temper and the climate.

But the promise of gold means companies shrug off the risks. "There's some *bandidos* there, for sure. But it's almost like paying a tax. We look at it as the price of doing business," says Ken Thorsen, president of Vancouver-based Teck Exploration, which had a Mexican geologist kidnapped. "If someone got killed it would be a different story."

At Nukay, a mine owned by Miranda Mining Development and Teck, the kidnappings stopped after a community relations programme last year that included funding a fishing co-operative. State police help patrol the mining facilities, and the army carries out random checks of explosives at the mines to ensure none is diverted to rebels.

Attracting mining companies to Guerrero has been a priority of the state and federal governments. According to Amin Zarur, the state's minister for economic development, this year mineral exploration alone brought some $50m to the state. If the exploratory findings are borne out, he expects mining companies could annually invest some $500m in Guerrero within five years.

Such growth would make it the state's second biggest industry after tourism, itself on the wane since Guerrero's only other treasure trove, the fading resort of Acapulco, fell from favour with foreign tourists.

Mining companies provide jobs in a state where unemployment is double the national average. Officials say they also pay at least double the minimum wage, which is enough to stop some workers emigrating to the US.

But with gold selling at less than $300 an ounce – a 25-year low – big companies have postponed plans to excavate in Guerrero. In Mexico, the government expects a 10 per cent decline in gold output this year, after it doubled to 26,000kg between 1993-97.

In Guerrero, foreign companies plan to use heap leaching technology which enables the low-cost extraction of gold with grades below 2 grammes a tonne. This way, the Peñoles-Newmont mine expects to produce gold at a cash cost of $180 an ounce, well below current prices. But it says it would still prefer prices above $300 before digging starts.

Henry Tricks

Mining investment in Guerrero 'a godsend for state government'

Oil rises as Iraq dispute escalates

MARKETS REPORT

By Robert Corzine and Gary Mead

Crude oil prices firmed again yesterday in response to the developing confrontation between Iraq and the UN over arms inspections.

The bellwether Brent Blend for September delivery was quoted at $12.91 a barrel in late trading on London's International Petroleum Exchange, 21 cents up from Tuesday's close of $12.70.

Yesterday's rise was moderated, however, by bearish stock data from the US, where the American Petroleum Institute reported that crude inventories rose by 1.8m barrels over the past week to 344m barrels.

The increase of refined product stocks in the US threatens to add a new dimension to the oil price slump, according to Philip Verleger, a US energy economist. In his latest report he says a shortage of storage could lead to reduced refinery runs and lower crude demand by as much as 1m barrels a day. That, he says, "could easily delay or even stop the market adjustment process anticipated by Opec" when it cut crude output.

On the London Metal Exchange trading drifted sideways again in the absence of fundamental news and investment fund activity. Three-months copper closed $2.50 a tonne higher at $1,658.50; most other base metals were equally trapped in price-bands, save nickel which shed $25 to end at $4,175.

On the London International Financial Futures Exchange, September coffee closed at $1,665 a tonne, $13 higher. Cocoa trading was dull and the September future ended the day unchanged at £1,066.

NEWS DIGEST

COFFEE

Brazil producers 'could hold back 8m bags'

Brazilian coffee producers should be able to withhold as much as 8m 60kg bags from sale due to government harvest financing, according to Banco do Brasil. During a visit to the Cooxupe co-operative, Brazil's largest, Paulo Cesar Ximenes, the bank president, said the expected retention of between 7m and 8m bags would act as a support to coffee prices. They will now pay the lower rate on their existing loans, instead of a long-term rate set at quarterly intervals, currently an annualised 10.6 per cent, plus 3 per cent.

Banco do Brasil will finance up to 70 per cent of the average internal price of the previous month, on which interest would be payable. No trigger price is in effect. "The sum of financing which the Banco do Brasil is granting coffee growers should be enough to hold 7m to 8m bags from sale, stopping prices from falling," it quoted Ximenes as saying. It gave no timeframe for the retention. Brazil is now harvesting and shipping its 1998-99 crop, which at an estimated 35m bags should be the largest for 10 years and a sharp improvement from the 23m-25m bags produced in 1997-98.

Last week, in a move to promote stock retention, Brazil's National Monetary Council – the country's highest body for monetary policy – cut the financing rate for farmers to a fixed 9.5 per cent from a variable rate of about 14 per cent. The idea of the financing is to enable producers to create a sustained cash flow, sell coffee throughout the crop year and avoid arrival gluts in particular months which would act to depress international prices. **Reuters**

OILSEEDS

India may allow imports

India's federal government is considering allowing the import of oilseeds to compensate shortfalls in domestic production, which is providing only 80 per cent of the country's requirement. A draft measure affecting farm policy provides for free import of soya bean and some high oil-bearing seeds; some sectors of the government want to make a start by importing 1m tonnes of soybean.

However, even though the commerce ministry has been campaigning for the import of oilseeds for several years, some members of the government fear that such a move could open the country's domestic production to a flood of crop diseases. S. C. Chatterjee, director of the Eastern India Oils Industry Association, said: "What we are telling the government is that the focus of our import should shift from oils to oilseeds. The country has built a capacity to extract oils from 40m tonnes of seeds a year, whereas our production is around 22m tonnes."

India's import of edible oils fell 25.86 per cent to 1.13m tonnes in the year to March 1998. "Lower import and a 2 per cent fall in the production of oilseeds to 24.48m tonnes in the current year caused a more than 40 per cent rise in the prices of edible oils since January last. Further rise in prices can be checked by importing at least 1m tonnes of oils in the next five months and throwing open the import of oil seeds," added Mr Chatterjee.

Kunal Bose, Calcutta

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1305.5-6.5	1325-26
Previous	1297.5-8.5	1316.5-7.0
High/low		1334/1320
AM Official	1303.5-04.0	1323-23.5
Kerb close		1320-21
Open int.	n/a	
Total daily turnover	80,065	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1146-55	1168-75
Previous	1153-8	1168-70
High/low		1180/1170
AM Official	1140-45	1165-70
Kerb close		1165-70
Open int.	n/a	
Total daily turnover	1,098	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	556.5-66.5	589.5-600.0
Previous	549-50	554-5
High/low		559/554
AM Official	551-61.5	556-57
Kerb close		558-59
Open int.	n/a	
Total daily turnover	6,940	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4120-25	4180-85
Previous	4080-90	4140-50
High/low		4220/4155
AM Official	4105-10	4155-60
Kerb close		4170-80
Open int.	n/a	
Total daily turnover	23,615	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5855-65	5530-40
Previous	5875-85	5545-50
High/low		5575/5530
AM Official	5570-80	5540-50
Kerb close		5540-60
Open int.	n/a	
Total daily turnover	3,628	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1060.5-62.5	1081-83
Previous	1045-49	1070-1
High/low		1083/1071
AM Official	1051-51.5	1074-75
Kerb close		1080-81
Open int.	n/a	
Total daily turnover	16,108	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1639-41	1660-62
Previous	1628-30	1650-1
High/low		1653/1641
AM Official	1621-22	1640.5-41
Kerb close		1650-50.5
Open int.	n/a	
Total daily turnover	70,947	

■ LME AM Official £/$ rate: 1.6360

LME Closing £/$ rate: 1.6365

Spot: 1.6357 3 mths: 1.6270 6 mths: 1.6182 9 mths: 1.6121

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	73.60	+0.20	74.50	73.80	218	1,656
Sep	74.00	+0.10	75.20	73.15	6,612	20,911
Oct	74.20	+0.10	75.10	74.00	61	2,138
Nov	74.35	+0.05	74.75	74.25	14	1,566
Dec	74.85	+0.05	75.70	74.15	1,835	13,563
Jan	74.85	+0.15	75.10	74.90	14	1,835
Total					8,855	60,558

PRECIOUS METALS

■ LONDON BULLION MARKET

[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	289.2	-0.6	289.5	287.6	1,280	3,368
Oct	289.7	-0.7	292.4	289.0	1,498	11,325
Dec	291.8	-0.7	294.8	291.1	42,719	98,847
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

[illegible]

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS IPE

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	68.10	+0.60	67.85	67.65	10	189
Nov	70.10	+0.35	70.05	69.60	78	3,533
Jan	72.10	+0.50	71.85	71.75	22	1,563
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne)

[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]

PULP AND PAPER

■ PULPEX OMLX (US$, 24 air dry ton)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	430.00	-	430.00	426.00	123	443
Dec	460.00	-	461.30	460.00	38	235
Total					161	788

FUTURES DATA

All futures data supplied by CMS.

Nuts and seeds Prices from Kenkko London $ per m/t. Iranian pistachios 28/30 raw (in shell) naturally opened (round); crop 1997 at $3,150 FCA or CFR from Iran. Down due to devaluation of Iranian currency. Turkish hazelnuts 13/15 and 11/13, for new crop indication $4,250 CFR. Market unstable. Indian cashews crop 1998 CFR from top shippers, W320 at $5,800, W240 at $7,050. Market very strong due to heavy default of raw seeds from Africa. US almonds new crop estimate at 540m pounds; standard 5 per cent crop 1997 at $4,400 FAS, crop 1998 at $4,300. Few purchases.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1066	-	1071	1082	1,156	32,426
Dec	1096	-	1103	1091	1,260	44,917
Mar	1119	-	1122	1116	73	39,944
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LIFFE (5 tonnes; $/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

[illegible]

INDICES

■ Reuters (Base: 18/9/31 = 100)

Aug 5	Aug 4	month ago	year ago
1551.5	[illegible]	[illegible]	[illegible]

■ CRB Futures (Base: 1967 = 100)

Aug 4	Aug 3	month ago	year ago
204.59	[illegible]	[illegible]	[illegible]

■ GSCI Spot (Base: 1970 = 100)

Aug 4	Aug 3	month ago	year ago
143.89	[illegible]	[illegible]	[illegible]

LME WAREHOUSE STOCKS (tonnes)

Aluminium	[illegible]	[illegible]	[illegible]
Aluminium alloy	[illegible]	[illegible]	[illegible]
Copper	[illegible]	[illegible]	[illegible]
Lead	[illegible]	[illegible]	[illegible]
Nickel	[illegible]	[illegible]	[illegible]
Zinc	[illegible]	[illegible]	[illegible]
Tin	[illegible]	[illegible]	[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	61.325	+1.500	61.325	60.250	6,784	18,287
Oct	61.975	+1.500	61.975	60.800	8,582	39,367
Dec	63.350	+1.500	63.350	62.000	2,722	15,165
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ LEAN HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lb)

[illegible]

LONDON TRADED OPTIONS

[illegible]

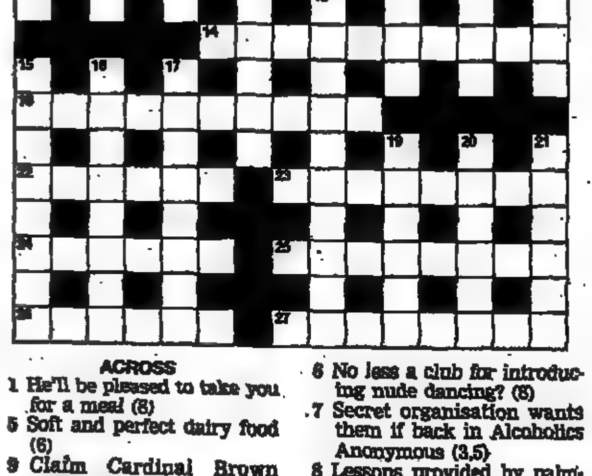
LONDON SPOT MARKETS

[illegible]

JOTTER PAD

CROSSWORD

No.9,753 Set by GRIFFIN



ACROSS

1 He'll be pleased to take you for a meal (8)

5 Soft and perfect dairy food (6)

9 Claim Cardinal Brown holds one (8)

10 One photographing America without one is stupid! (6)

11 Offer diced nuts and tea, perhaps (8)

12 Retiring, is taking airmen on a beastly journey (6)

14 Frightening poor MEP into running about (10)

18 Stripped and bound for not wearing a hat? (10)

22 Managed to swindle millions by chance (6)

23 Avoid publicity during adventure (8)

24 I rushed back, cold and blue (6)

25 Threaten to pack in incense (8)

26 Crazy person never first to speak (6)

27 Person from Corfu, say, is to win a sovereign (8)

DOWN

1 It's funny to arrive without the French lady (6)

2 Water nymphs in a sad form (6)

3 In once piece Clint acts a bit! (6)

4 Actor with sitar disguised as a lord (10)

6 No less a club for introducing nude dancing? (8)

7 Secret organisation wants them if back in Alcoholics Anonymous (3,5)

8 Lessons provided by palmists? (8)

13 They replace and mend spar as broken (10)

15 Where Jack and Elizabeth lack upbringing (8)

16 Nip back to tipster clutching right computer list (5-3)

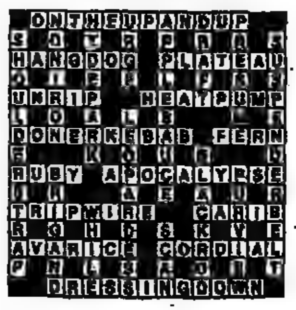
17 Companion at home learning about poison gas (8)

19 Fruit is included in ikebana, naturally (6)

20 Caught a good German leader in bed! (6)

21 Porter is to carry topless girl (6)

Solution 9,752



FT MANAGED FUNDS SERVICE

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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LUXEMBOURG (REGULATED)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

HOUSEHOLD GOODS & TEXT - Continued

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Exchange used in calculations are based on WM 'Reuters' [illegible] formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the Internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Please note that FT Company Focus/Focus Plus reports ceased to be available as from May 4th 1998. However ShareFinder company reports, incorporating current and historic financial information, key performance data and consensus recommendations, may still be purchased by calling 0870 601 4800.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request. Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Footsie buffeted by cold wind from Wall Street

MARKET REPORT

By Peter John

The London market had a *distinct feel of winter about* it yesterday.

It was not merely that the FTSE 100 index fell more than 100 points - it was also that it reached a level not seen since February 16.

Some encouraging economic data and a batch of *strong corporate figures* were no competition for the after-effects of the third biggest points fall by the Dow Jones Industrial Average.

The Dow's 300-point fall late on Tuesday, backed by daily volume that was the second highest ever traded, ensured that London was *only ever going to head one* way.

When the indicative pre-market orders had been calculated shortly after 9am, Footsie was quoted down almost 50 points. Half an hour later, it was down almost 100 points. And by midday it was down 165.

Then, some sense of stability prevailed and, well before Wall Street opened in the afternoon, London had reached a level about 100 points below the previous close. Footsie ended a net 108.6 lower at 5,632.5, almost 9 per cent below the closing peak reached on July 20. The *FTSE 250 fell 123 to 5,321.5* and the SmallCap index fell 42.1 to 2,415.2.

Traders remained relatively unperturbed by the rout, arguing that it represented an adjustment that had to happen.

Nigel Little, head of sales at Panmure Gordon, said: "When something happens that marketmakers don't have time to think about is when you get big volumes.

"*What happened to Wall* Street was not a surprise as the current earnings growth is not enough to sustain the multiples we have seen," he said.

Nevertheless, the US move was enough to suppress the impact of some positive industrial figures from the UK. Economists had forecast a 0.2 per cent decline in June manufacturing output.

However, *output actually* rose 0.7 per cent month on month leaving overall second-quarter growth up 1.1 per cent, the highest gain since the third quarter of 1994.

*Michael Saunders of Salo*mon Smith Barney said the rise was not as encouraging as it first looked because it *principally reflected a* weather-related surge in energy output.

The market remains wary of the downturn in manufacturing that was highlighted by a negative survey from the Confederation of British Industry last week.

*And although manufactur*ing only represents 20 per cent of the economy, Credit Suisse First Boston claims that its impact can be disproportionate to its size.

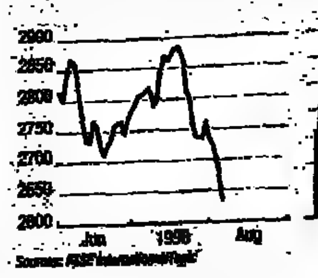
"At this stage of the cycle, manufacturing typically plays a greater role than its *GDP* weight would suggest. The latest survey evidence *leads us to cut* next year's growth forecast to 1.3 per cent," says Robert Barrie of CSFB.

The US fall was also too much for some of the companies reporting.

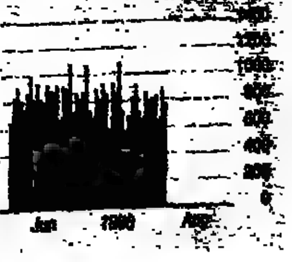
GKN and Standard Chartered both closed down in *spite of some solid figures*, although Cadbury Schweppes and Woolwich ended firmer.

Turnover by 6pm was quoted at 773.1m shares, of which 53.5 per cent represented *Footsie stocks*.

FTSE All-Share index



Equity shares traded



Indices and ratios

FTSE 100	5632.5	-103.6
FTSE 250	5321.5	-123.4
FTSE 350	2716.1	-52.4
FTSE All-Share	2643.40	-50.65
FTSE All-Share yield	3.00	2.94
FT 30	3619.0	-43.8
FTSE Non-Fins p/e	21.74	22.08
FTSE 100 Fut Sep	5639.0	-111.0
10 yr Gilt yield	5.00	5.78
Long gilt/equity yld ratio	1.88	1.93

Best performing sectors

1 Gas Distribution +1.5
2 Alcoholic Beverages +0.5
3 Water +0.1
4 Utilities -0.2
5 Food Producers -0.2

Worst performing sectors

1 Diversified Industrials -4.1
2 Telecommunications -3.8
3 Support Services -3.4
4 Life Assurance -3.4
5 Health Care -3.2

Energis bucks sell-off

COMPANIES REPORT

By Joel Kibazo and Peter John

In telecoms, Energis resisted the sharp market decline to *rise 17½ to 895p following a* bullish note from Morgan Stanley Dean Witter.

The broker upgraded its rating on the stock from "outperform" to "strong buy" and reiterated its near-term share price *target of* £12.

In a note to clients, analysts at Morgan said: "In our view, the shares' recent underperformance provides investors with a unique opportunity to share in the strong growth of the UK telecom advanced data services market (16 per cent per annum growth to 2006/7) - the segment of the market that Energis specifically focuses on."

Nothing could dent the bid speculation that made Booker the best performer in the FTSE 250.

The shares bounced 12 to 220½p as German retail group Metro denied rumours in the London market *suggesting it was planning to* bid for the UK food distributor and cash-and-carry group.

However, one market specialist said: "Metro may not be buying the whole of Booker, but there is nothing to say it is not looking to buy Booker's cash-and-carry businesses which would fit *well with its own* operations."

Booker shares have been under a cloud, with the group having effectively issued three profits warnings so far this year. They fell to a low of 208½ earlier this week.

Confectionery and soft drinks group Cadbury Schweppes shrugged off *initial weakness as dealers* warmed to publication of first-half figures in line with market expectations.

Pre-tax profits from continuing operations before disposals rose to £254m from £236m a year earlier, with analysts also cheered by a *confident statement.*

Having fallen to 823p in early trading, a positive analysts' meeting helped trigger a recovery which sent the shares to the top of the Footsie best performers list. They closed 27 ahead at 864p.

Analysts noted that US sales of 7Up continued to decline, and although the company said it was *planning to relaunch the lemon* and lime drink in the US next year, one sceptic said: "I think they are on a hiding to nothing. 7Up is a brand in decline and it will be diffi*cult to turn it around.*"

Confirmation came from Laporte that it was offering 340p a share for Inspec, which rose a penny to 333½p. Laporte also said it had 25.8 per cent of Inspec shares after buying in the market on Tuesday. Laporte shares fell 15½ to 640½p.

Inspec also announced interim results down from £24.6m to £21.3m, while Laporte's interims were *static at £66.7m.*

Rolls-Royce was helped by news of an order from United Airlines for 22 V2500 engines. The shares spent the entire day in positive territory, despite the negative market sentiment, and closed up 3 at 223p.

The bullish trading *statement* from computer and video games group Electronics Boutique helped the shares shrug off the market decline and firm to 77½p.

Electronic equipment *group Radstone Technology* announced avionics orders worth £6.5m. The shares, placed at 40p in March, rose 5½ to 52p.

The first day of dealings on Aim for Premier Direct Group, which sells books *and toys to staff in the work*place, saw the shares rise 2½ to 182½p.

LucasVarity was up 4 at 217½p after it said it planned to sell its heavy vehicle braking systems, and said the automotive *and aero*space divisions would remain its core businesses.

GKN was down 23 at 748p after it reported figures at the top end of analysts' forecasts. Dealers said the stock *had fallen more or less in* line with the market after the results had provided no positive surprises.

The stock had enjoyed a good run ahead of the figures, which had been expected to continue the trend of strength in engineering results. In the event, the stock was hurt by negative market sentiment.

Dixon rises

Dixon Motors was one of *the few vehicle distributors* to see its shares rise as it moved to calm investors' fears over its exposure to the resale value of used cars.

It announced the purchase of a Ford franchise in the north of England, and added that it had not bought any used cars in the deal. It also said it had "worked hard to maintain a high level of used vehicle sales during the last four months". August new car sales had been in line with expectations. The *shares rose 4 to 198½p.*

An agreed bid by food group Greencore for Paramount Foods made shares in the former Canadian Pizza company one of the best market performers as they rose 21 per cent.

The rise of 25½ to 145½p came after Dublin-based Greencore said its offer valued Paramount shares at 150p each. Greencore shares were off 1½ to 293½p.

Its move trumps the indicative price of 135p a share that came from a management buy-out team in May, *but is well below the 200p at* which the company listed in 1993. Greencore said it planned to develop the Paramount Foods business under current management as part of the Greencore food divi*sion.*

Dealers attributed the rise in gas supply and exploration group BG to defensive buying. The shares rose 9½ to 380p.

Media group Pearson *remained* unloved as the shares fell below the price of Tuesday's share placing. Continued selling of the stock saw it relinquish another 13 to £11.22.

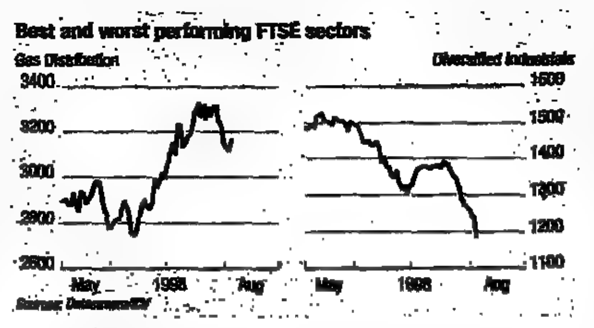
The group pleased the market on *Monday after* it published interim figures well head of expectations. However, sentiment turned sour on Tuesday after Pearson announced a placing of 28.9m new shares at £11.35.

Shire Pharmaceuticals tumbled after it said its *results would be hit by the* loss of manufacturing after an explosion at Arenol Inc's plant in the US. The shares fell 88 to 393½p, the worst performers in the FTSE 250.

The company said Arenol is the sole supplier of the active ingredients used in Adderall and DextroStat, its products for the treatment of attention deficit hyperactivity disorder.

In the six months to the end of June 1998, Adderall and DextroStat represented *around 63 per cent of Shire's* revenue.

Best and worst performing FTSE sectors



FT 30 INDEX

	Aug 5	Aug 4	Aug 3	Jul 31	Jul 30	Yr ago	*High	*Low
FT 30	3619.0	3662.8	3700.3	3706.2	3742.9	3159.7	3884.0	3576.9
Ord. div. yield	2.98	2.93	2.92	2.91	2.89	3.48	4.22	2.72
P/E ratio net	22.52	22.88	22.96	23.02	23.29	18.78	25.41	15.80
P/E ratio nil	22.43	22.78	22.89	22.92	23.19	18.57	25.18	15.71

FT 30 since compilation: high [illegible] 11/08/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3592.8	3601.4	3598.8	3590.1	3596.6	3619.5	3618.6	3620.2	3662.8	3576.9

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STOCK MARKET TRADING DATA

	Aug 5	Aug 4	Aug 3	Jul 31	Jul 30	Yr ago
SEAQ bargains	71,000	63,958	60,911	72,402	67,991	49,077
Equity turnover (£m)†	-	2803.3	2803.1	[illegible]	2935.2	2452.0
Equity bargains†	-	45,333	50,848	48,309	46,780	47,[illegible]
Shares traded (m)†	-	626.1	691.0	728.9	717.8	751.2
Total market bargains‡	-	61,426	-	[illegible]	68,054	-
Total turnover (£m)‡	-	3863.1	-	4282.1	4083.7	-
Total shrs traded (m)‡	*773.1	886.0	847.2	[illegible]	963.8	-
Tradepoint turnover (£m)	74.6	15.2	14.4	13.6	18.4	9.2
Tradepoint shrs traded(m)	15.6	5.8	6.0	4.8	6.9	2.1

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	268	Total Highs	18	Total contracts	52,760
Total Falls	1,974	Total Lows	281	Calls	22,763
Same	755			Puts	29,997

Aug 5 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	5650.0	5639.0	-111.0	5684.0	5591.0	38928	180218
Dec	5715.0	5724.0	-115.0	5720.0	5674.0	313	7971
Mar		5784.0	-126.0			0	970

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	5400.0	5400.0	-120.0	5400.0	5400.0	3	3087

■ FTSE 100 INDEX OPTION (LIFFE) (*5633) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

Gold Mines Index (30)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ Regional Indices					
Africa (10)	[illegible]	0.0	[illegible]	1307.2[illegible]	[illegible]
Australasia (7)	1064.33	+0.7	1057.27	1580.4[illegible]	[illegible]
Americas (11)	861.06	+1.8	837.57	1400.6[illegible]	[illegible]

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Aug 5	Day's chge%	Aug 4	Aug 3	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5632.5	-1.8	5736.1	5809.7	5026.2	2.98	2.50	1.95	21.74	89.04	2469.16
FTSE 250	5321.5	-2.3	5444.9	5447.9	4617.5	3.10	2.62	2.00	20.20	87.40	2283.22
FTSE 250 ex Inv Tr	5365.9	-2.2	5488.6	5492.8	4505.2	3.19	2.70	2.06	19.04	90.72	2317.50
FTSE 350	2716.1	-1.9	2768.6	2797.7	2400.8	2.98	2.52	1.96	21.44	43.21	2433.38
FTSE 350 ex Inv Tr	2720.5	-1.9	2772.5	2802.5	2402.2	3.00	2.54	1.97	21.22	43.51	1250.16
FTSE 350 Higher Yield	2567.1	-1.2	2599.8	2725.4	2286.2	3.98	3.36	1.59	16.72	58.18	2044.78
FTSE 350 Lower Yield	2773.3	-2.4	2842.7	2875.2	2515.2	2.10	1.83	2.08	27.90	32.72	2017.25
FTSE SmallCap	2415.15	-1.7	2457.32	2460.27	2188.77	3.32	2.79	1.91	18.76	37.79	2107.67
FTSE SmallCap ex Inv Tr	2393.98	-1.6	2433.58	2437.67	2142.32	3.67	2.90	2.00	17.49	38.67	2110.89
FTSE All-Share	2643.40	-1.9	2694.05	2721.09	2339.74	3.00	2.53	1.95	21.34	41.99	2403.48
FTSE All-Share ex Inv Tr	2649.85	-1.9	2700.15	2727.98	2340.98	3.02	2.58	1.97	20.99	42.43	1239.59

■ FTSE Actuaries Industry Sectors

	Aug 5	Day's chge%	Aug 4	Aug 3	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4071.25	-2.9	4191.88	4191.93	5067.10	3.77	3.25	1.66	19.97	74.43	1672.98
12 Extractive Industries(6)	2665.64	-1.1	2695.32	2726.75	4238.00	5.94	4.81	2.05	11.61	76.82	841.33
15 Oil, Integrated(4)	4580.86	-3.2	4729.99	4718.39	5414.10	3.72	3.18	1.58	21.23	79.67	2167.59
16 Oil Exploration & Prod(12)	2674.12	-2.4	2739.03	2769.07	3858.22	2.13	1.76	1.74	33.76	33.41	1662.13
20 GEN INDUSTRIALS(216)	1909.86	-1.7	1942.44	1949.32	1958.12	3.79	3.34	2.28	14.43	35.35	1124.67
21 Construction(38)	1358.67	-1.7	1382.54	1388.81	1305.17	3.63	2.95	2.72	12.66	22.87	1214.79
22 Building Matls & Merchs(29)	1568.10	-1.6	1593.26	1595.46	1813.39	4.69	4.09	2.00	13.33	39.74	858.57
23 Chemicals(25)	2280.66	-2.0	2326.49	2308.65	2686.19	4.11	3.67	1.61	18.78	48.37	1169.44
24 Diversified Industrials(7)	1188.62	-4.1	1239.81	1245.63	1315.07	4.86	4.62	2.11	12.19	28.73	733.70
25 Electronic & Elect Equip(26)	2498.26	-2.8	2571.41	2568.87	2095.04	3.08	2.46	1.66	22.14	23.06	1377.48
26 Engineering(63)	2536.24	-1.0	2560.74	2597.27	2622.75	3.75	3.34	2.49	13.42	50.01	1842.48
27 Engineering, Vehicles(11)	3684.83	-1.1	3767.15	3670.53	2980.59	2.42	2.22	3.34	15.48	43.88	2020.52
28 Paper, Pckg & Printing(22)	1910.69	-1.9	1947.83	1942.87	2011.91	4.70	4.21	2.41	11.05	43.37	865.15
30 CONSUMER GOODS(91)	5667.62	-1.5	5753.66	5779.83	4705.02	2.58	2.30	1.74	27.93	82.43	2245.91
32 Alcoholic Beverages(6)	3872.99	+0.5	3853.49	3931.91	3316.18	3.50	2.96	1.80	22.35	68.97	1518.10
33 Food Producers(25)	3811.77	-0.2	3820.53	3840.01	3117.35	2.75	2.33	2.09	21.77	63.42	1854.44
34 Household Goods & Texts(24)	3087.42	-1.1	3122.59	3114.63	3183.52	3.53	3.15	2.05	17.28	53.57	1303.92
36 Health Care(13)	2441.86	-3.2	[illegible]	[illegible]	[illegible]	2.05	1.89	2.30	26.57	31.01	1565.54
37 Pharmaceuticals(26)	9452.47	-2.2	9660.33	9679.70	7763.69	1.85	1.73	1.80	42.17	105.64	3384.65
38 Tobacco(3)	5544.94	-2.3	5674.65	5701.82	4232.52	4.84	4.10	1.61	18.71	130.10	1651.97
40 SERVICES(280)	3504.28	-2.3	3585.77	3652.11	2727.92	2.45	2.00	2.01	25.40	46.65	1935.21
41 Distributors(28)	2261.61	-1.4	2292.92	2307.21	2733.19	4.35	3.59	1.98	14.53	47.27	891.91
42 Leisure & Hotels(27)	3458.65	-1.1	3497.54	3614.89	3290.52	2.74	2.27	2.58	17.66	62.90	1964.63
43 Media(41)	4409.28	-2.0	4499.55	4584.37	4222.19	2.36	1.99	2.27	23.34	57.13	1673.05
44 Retailers, Food(13)	2999.33	-2.1	3061.57	3112.37	2427.34	3.03	2.42	2.04	20.27	47.98	2048.63
45 Retailers, General(46)	2133.88	-0.7	2148.48	2182.54	2197.17	3.49	2.80	2.17	16.55	40.88	1307.05
46 Telecommunications(10)	4760.83	-3.8	4937.03	5098.98	2342.00	1.84	1.52	1.44	47.06	47.59	2330.18
47 Breweries, Pubs & Rest.(24)	3886.91	-1.3	3937.47	4003.12	3355.39	3.16	2.54	2.36	16.74	65.00	1985.60
48 Support Services(64)	4868.60	-3.4	5038.75	5097.31	3017.54	1.23	1.04	2.67	38.00	30.07	3210.00
49 Transport(24)	3871.78	-0.8	3904.68	3921.31	2846.70	2.74	2.24	1.54	29.61	57.50	1733.94
60 UTILITIES(25)	4010.83	-0.2	4019.88	4043.45	3010.36	4.02	3.29	1.73	18.02	88.19	1932.28
62 Electricity(8)	4335.15	-1.3	4393.45	4434.34	3310.75	4.65	3.72	1.89	14.24	104.41	2558.34
64 Gas Distribution(2)	3160.23	+1.5	3113.06	3131.23	2250.83	2.06	1.65	‡	‡	26.03	1826.53
68 Water(12)	3602.08	—	3600.73	3602.33	2837.61	4.74	4.06	2.31	11.41	112.14	2254.38
69 NON-FINANCIALS(631)	2691.20	-1.9	2745.36	2770.45	2396.97	2.93	2.50	1.92	22.20	41.93	2198.59
70 FINANCIALS(106)	5072.42	-1.7	5162.50	5222.41	4721.61	3.30	2.78	2.10	17.97	88.10	2349.52
71 Banks, Retail(12)	7228.84	-1.3	7324.28	7387.12	7429.32	3.50	2.80	2.09	17.11	128.41	2533.91
73 Insurance(16)	2578.65	-1.3	2612.75	2628.68	1812.43	3.28	3.06	2.16	17.64	50.10	2134.79
74 Life Assurance(6)	6964.15	-3.4	7207.95	7339.23	4923.24	2.74	2.37	2.40	18.98	108.92	3111.76
77 Other Financial(25)	4576.58	-3.1	4725.17	4860.49	3285.63	2.43	1.99	2.23	23.11	71.17	2796.95
79 Property(45)	1847.80	-1.6	1877.46	1895.76	2013.94	3.56	2.99	1.62	21.80	33.85	1218.41
80 INVESTMENT TRUSTS(114)	3728.10	-2.5	3822.91	3828.54	3511.18	2.19	1.78	1.17	48.64	42.77	1361.83
89 FTSE All-Share(851)	2643.40	-1.9	2694.05	2721.09	2339.74	3.00	2.53	1.95	21.34	41.99	2403.48
105 FTSE All-Share ex Inv Tr(737)	2649.85	-1.9	2700.15	2727.98	2340.98	3.02	2.58	1.97	20.99	42.43	1239.59
Information Technology	1707.80	-3.8	1775.89	1782.54	-	0.52	0.47	4.13	58.65	3.94	1712.49
FTSE Fledgling	1320.05	-1.8	1344.32	1348.54	1234.71	3.33	2.70	1.42	26.49	21.21	1488.19
FTSE Fledgling ex Inv Tr	1335.45	-1.8	1359.98	1365.62	1229.97	3.66	2.98	1.48	22.92	23.63	1491.76
FTSE AIM	1041.7	-1.7	1060.0	1059.5	1013.0	1.23	0.98	0.14	80.00†	5.83	995.02

■ Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5736.1	5697.6	5608.4	5679.0	5604.1	5637.3	5626.2	5627.1	5686.4	5571.4
FTSE 250	5366.1	5339.4	[illegible]	5327.0	5321.8	5322.6	5318.4	5320.7	5376.2	5317.5
FTSE 350	2761.1	2719.8	2707.1	2695.8	2705.0	2718.1	2713.3	2713.9	2742.8	2692.5
FTSE SmallCap	2423.31	2418.26	2418.20	2417.59	2415.51	2414.60	2414.51	2414.62	2433.00	2414.20
FTSE All-Share	2685.14	2646.97	2635.29	2624.69	2633.20	2645.18	2640.79	2641.35	2668.34	2621.84

Time of FTSE 100 Day's high: 9:03:00 Day's low: 12:08:00. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 5068.4 (12/01/98)
Time of FTSE All-Share Day's high: 9:03:00 Day's low: 12:08:00. FTSE All-Share 1998 High: 2965.20 (20/07/98) Low: 2389.32 (12/01/98)

Further information is available on http://www.ftse.com.

‡ Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Name change: Pittencrieff Resources now Paladin Resources. [illegible]

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Aug 5 / Sch)

BELGIUM/LUXEMBOURG (Aug 5 / Frs.)

CZECH REP (Aug 5 / Koruna)

DENMARK (Aug 5 / Kr)

FINLAND (Aug 5 / Mkk)

FRANCE (Aug 5 / Frs.)

GERMANY (Aug 5 / Dm.)

GREECE (Aug 5 / Drachma)

ITALY (Aug 5 / Lira)

NETHERLANDS (Aug 5 / Fls.)

NORWAY (Aug 5 / Kroner)

POLAND (Aug 5 / Zloty)

PORTUGAL (Aug 5 / Escudo)

SPAIN (Aug 5 / Pts.)

SWEDEN (Aug 5 / Kronor)

SWITZERLAND (Aug 5 / Frs.)

TURKEY (Aug 5 / Tk Lira)

PACIFIC

JAPAN (Aug 5 / Yen)

HONG KONG (Aug 5 / H.K.$)

INDONESIA (Aug 5 / Rupiah)

MALAYSIA (Aug 5 / MYR)

NEW ZEALAND (Aug 5 / NZ $)

SINGAPORE (Aug 5 / S$)

AUSTRALIA (Aug 5 / Aust$)

SOUTH KOREA (Aug 5 / Won)

TAIWAN (Aug 5 / TW $)

THAILAND (Aug 5 / Baht)

AMERICAS

CANADA

TORONTO (Aug 5 / Can $) 3:45 pm

MONTREAL (Aug 5 / Can $) 3:45 pm

MEXICO (Aug 5 / Peso) 12:30 pm

AFRICA

SOUTH AFRICA (Aug 5 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY AUGUST 4 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY AUGUST 3 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	187.34	-0.8	170.08	171.79	173.87	205.96	0.3	3.63	185.92	169.63	171.26	172.47	205.32	238.24	173.27	235.48
Austria (22)	232.01	0.3	210.81	212.76	215.08	214.94	0.2	1.57	231.29	211.02	213.08	214.56	214.42	253.73	181.80	230.49
Belgium (22)	388.45	0.8	353.53	357.14	361.04	353.24	0.8	1.94	385.27	352.42	355.82	358.33	350.55	398.52	234.33	262.80
Brazil (28)	212.93	-5.0	193.29	195.26	197.40	457.00	-4.9	2.44	224.19	204.54	206.51	207.97	480.75	308.59	184.94	288.55
Canada (119)	206.78	-3.2	187.68	189.60	191.68	226.58	-3.3	1.80	213.68	194.97	196.85	198.34	234.27	248.78	189.10	221.98
Denmark (34)	500.20	-0.3	454.08	458.70	463.72	462.08	-0.5	1.40	501.95	457.97	462.39	465.65	464.28	537.33	375.32	387.75
Finland (28)	483.28	-0.8	438.72	443.19	448.03	549.87	-0.9	1.67	487.12	444.43	448.72	451.89	554.03	508.46	267.58	309.61
France (78)	319.10	-0.8	289.87	292.82	295.82	299.27	-0.8	2.10	321.53	293.38	296.19	298.28	301.76	345.18	217.48	225.79
Germany (58)	300.91	0.1	273.16	275.94	278.96	278.96	0.1	1.14	300.49	274.16	276.80	278.76	278.75	325.61	204.89	228.02
Greece (37)	329.31	-0.1	298.94	301.99	305.29	899.55	-0.1	1.35	329.77	300.87	303.77	305.92	760.48	333.20	280.24	–
Hong Kong, China (68)	223.26	1.1	202.67	204.74	206.97	222.10	1.1	7.12	220.75	201.41	203.35	204.79	219.82	580.03	218.78	581.02
Indonesia (27)	32.75	-1.5	29.73	30.03	30.36	280.15	-3.0	2.53	33.23	30.32	30.62	30.83	288.11	228.04	23.58	228.04
Ireland (16)	510.88	0.1	463.76	468.49	473.61	510.59	-0.2	1.83	510.15	465.45	469.94	473.26	511.81	580.44	359.80	369.80
Italy (54)	170.09	-0.2	154.40	155.98	157.68	223.46	-0.3	1.32	170.52	155.58	157.08	158.19	224.21	184.49	95.46	97.22
Japan (480)	87.42	-0.5	79.35	80.16	81.04	80.16	-1.0	0.97	87.91	80.21	80.98	81.55	80.98	134.46	83.04	130.81
Malaysia (106)	101.07	0.0	91.75	92.69	93.70	161.56	-0.4	3.67	101.10	92.24	93.13	93.78	162.27	453.68	101.07	453.69
Mexico (29)	1293.25	-2.2	1173.98	1185.96	1198.92	12896.35	-2.1	2.15	1321.95	1206.12	1217.75	1226.35	12935.15	1801.06	1278.19	1829.40
Netherlands (27)	514.50	1.1	467.05	471.81	476.97	472.18	1.0	1.68	500.11	464.51	468.98	472.30	467.50	582.38	365.58	420.75
New Zealand (14)	61.67	-0.3	55.98	56.55	57.17	63.75	-1.2	4.72	61.87	56.45	57.00	57.40	64.53	95.87	58.33	91.73
Norway (38)	295.13	-1.2	267.82	270.65	273.60	304.20	-1.2	2.06	298.62	272.45	275.08	277.02	307.91	374.64	281.62	318.91
Philippines (22)	62.00	-1.5	56.29	56.86	57.48	130.40	-1.5	1.29	62.95	57.43	57.99	58.40	132.39	153.54	57.54	145.87
Portugal (18)	273.03	0.1	247.85	250.38	253.11	341.14	0.0	0.95	272.81	248.91	251.31	253.08	340.98	299.39	261.25	–
Singapore (42)	143.29	0.8	130.08	131.40	132.84	113.98	0.3	2.65	142.13	129.98	130.98	131.85	113.59	375.32	133.81	375.32
South Africa (40)	211.89	1.0	192.35	194.31	196.43	288.44	1.0	3.11	209.88	191.49	193.34	194.70	283.51	359.06	207.83	350.86
Spain (31)	401.00	0.8	364.02	367.73	371.75	460.14	0.8	1.65	397.81	362.95	366.45	369.04	456.67	417.73	236.28	237.87
Sweden (49)	573.17	-0.7	520.32	525.62	531.36	678.39	-0.6	1.73	577.24	526.67	531.74	535.50	682.57	628.19	438.88	490.55
Switzerland (26)	430.08	0.5	390.40	394.38	398.69	399.79	0.4	1.04	427.87	390.38	394.15	396.93	398.16	439.48	265.85	306.16
Thailand (38)	11.38	-3.2	10.31	10.42	10.53	17.97	-3.4	4.94	11.73	10.70	10.81	10.88	18.80	82.21	11.38	82.21
United Kingdom (211)	366.06	-0.6	332.30	335.69	339.36	332.30	-1.1	2.88	368.38	336.10	339.34	341.74	336.10	401.84	303.41	312.75
USA (627)	438.58	-3.6	398.14	402.19	406.59	438.58	-3.6	1.48	455.10	415.22	419.22	422.19	455.10	485.88	358.31	385.57
Americas (801)	394.12	-3.6	357.78	361.43	365.38	333.85	-3.6	1.50	408.92	373.09	376.69	379.36	346.30	437.03	326.79	352.80
Europe (749)	359.48	-0.1	326.33	329.65	333.28	341.08	-0.3	1.80	359.97	328.43	331.60	333.94	342.24	388.24	285.25	274.32
Eurobloc (352)	105.29	0.1	95.58	96.55	97.61	105.57	0.0	1.81	105.18	95.97	96.89	97.58	105.54	113.28	99.54	–
Nordic (149)	514.24	-0.7	468.61	471.57	476.73	528.30	-0.7	1.89	517.85	472.48	477.03	480.40	531.93	555.97	388.51	420.10
Pacific Basin (868)	93.43	-0.3	84.82	85.68	86.62	85.56	-0.7	1.74	93.72	85.51	86.34	86.95	86.19	152.78	88.45	140.91
Euro-Pacific (1617)	204.34	-0.2	185.49	187.38	189.43	181.96	-0.4	1.92	204.71	186.77	188.58	189.91	182.77	220.19	172.03	201.85
North America (746)	423.32	-3.6	384.29	388.20	392.45	424.17	-3.6	1.49	439.20	400.72	404.58	407.44	440.09	469.20	349.06	375.42
Europe Ex. UK (538)	342.91	0.1	311.29	314.46	317.90	334.50	0.0	1.53	342.80	312.58	315.59	317.82	334.41	386.32	238.78	247.31
Europe Ex. Eurobloc (397)	98.87	-0.4	87.94	88.83	89.80	98.58	-0.7	2.39	97.26	88.73	89.59	90.22	99.31	103.93	84.53	–
Europe Ex. UK Ex. Eurobloc (186)	104.49	0.1	94.85	95.82	96.86	105.88	0.0	1.28	104.42	95.27	96.19	96.87	105.87	109.21	95.89	–
Pacific Ex. Japan (388)	147.52	0.7	133.91	135.28	136.76	155.80	0.4	4.81	146.47	133.63	134.92	135.88	154.98	315.31	142.90	313.17
World Ex. Eurobloc (2106)	93.94	-2.5	85.29	86.15	87.09	95.69	-2.6	1.72	96.34	87.90	88.75	89.38	98.28	103.10	93.25	–
World Ex. US (1831)	204.99	-0.4	186.09	187.98	190.04	187.09	-0.8	1.94	205.76	187.73	189.54	190.88	188.24	221.91	175.30	206.25
World Ex. UK (2247)	272.16	-2.2	247.06	249.58	252.31	252.25	-2.3	1.55	278.32	253.94	256.30	258.20	258.15	298.02	234.24	258.34
World Ex. Japan (1978)	375.81	-2.2	341.16	344.63	348.40	371.38	-2.3	1.78	384.28	350.61	353.98	356.49	380.04	411.23	300.33	391.15
The World Index (2458)	280.16	-2.0	254.33	256.92	259.73	259.55	-2.2	1.70	280.02	260.96	263.47	265.33	265.29	308.58	241.30	283.52

Emerging markets: IFC Investable indices

Dollar terms

3:30 pm August 5

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Telekurs, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

§ Dealings suspended.(§) Owing to technical problems, all North American prices are pre-close.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Aug 4	Aug 3	Jul 31	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8487.31	8786.74	8883.29	9337.97 (17/7)	7580.42 (9/1)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	105.04	105.30	105.16	106.46 (15/1)	104.42 (11/6)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3087.28	3198.05	3230.31	3686.02 (16/4)	3087.28 (4/8)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	273.74	280.33	278.65	295.40 (6/7)	262.68 (9/1)	295.40 (6/7/98)	10.50 (8/7/32)

DJ Ind. Day's high 8696.68 (8843.17) Low 8463.87 (8729.59) (Theoretical)
Day's high 8657.03 (8886.12) Low 8487.31 (8785.70) (Actual)

Standard and Poors	Aug 4	Aug 3	Jul 31	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1072.12	1112.44	1120.67	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials¶	1255.28	1289.08	1307.39	1380.48 (17/7)	1077.48 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial¶	128.17	134.81	136.88	147.89 (14/7)	110.65 (9/1)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	541.36	560.89	565.27	608.75 (17/7)	492.47 (9/1)	608.75 (17/7/98)	4.84 (25/4/42)
Amex Comp	678.76	687.87	706.28	753.87 (22/4)	646.41 (12/1)	753.87 (22/4/98)	324.20 (18/7/86)
NASDAQ Comp	1785.64	1851.10	1872.39	2014.25 (20/7)	1503.22 (9/1)	2014.25 (20/7/98)	54.87 (31/10/74)
Russell 2000	401.63	413.35	419.75	491.41 (21/4)	401.63 (4/8)	491.41 (21/4/98)	123.36 (7/12/93)

US DATA

MARKET ACTIVITY

Volume (million)	Aug 4	Aug 3	Jul 31
NYSE	852.870	620.400	646.910
Amex	42.280	28.362	26.779
NASDAQ	928.297	658.887	748.534

NYSE	Aug 4	Aug 3	Jul 31
Issues Traded	3,547	3,544	3,526
Rises	508	963	774
Falls	2,624	2,099	2,220
Unchanged	415	482	530
New Highs	17	20	23
New Lows	583	382	288

NYSE TRADING ACTIVITY

Volume : 852,870,000

ACTIVE STOCKS Tuesday	Stocks traded	Close price	Day's change
Compaq	13,911,400	32¼	–⅞
LucentTch	7,988,100	87	–3¼
CmpAsc	7,277,800	31⅝	+1⅛
Travlr	7,059,800	61⅞	–3⅜
ProctG	7,040,700	77⅞	+1⅜
PhMorr	6,893,800	42¼	–1⅝
AmOnl	6,052,200	26⅞	+2
GenElec	6,204,500	85¼	–4⅛
Cendnt	5,832,300	15⅝	–½
AT&T	5,735,900	57	–2½

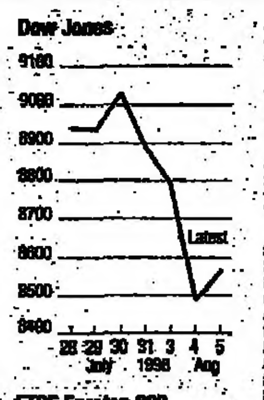
BIGGEST MOVERS Tuesday	Close price	Day's change	Day's chge %
Ups			
AMP	42¼	+13⅝	+48.1
Bolinda	13⅞	+⅞	+6.3
NatWBk	108	+5⅝	+5.8
RL Ind	21⅜	+1⅛	+5.6
Downs			
Tokheim Co	11⅝	–7⅛	–38.5
SGI System	32⅞	–7	–17.8
Unisys	22½	–4⅝	–17.1
Gerber Sci	23¼	–3⅜	–13.4

NASDAQ TRADING ACTIVITY

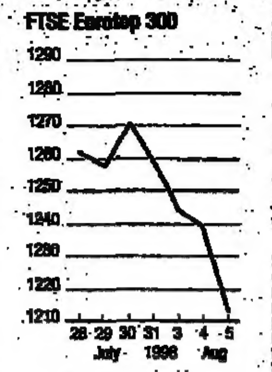
Volume 928,297,000

ACTIVE STOCKS / BIGGEST MOVERS: [illegible]

Dow Jones



FTSE Eurotop 300



JAPAN

	Aug 5	Aug 4	Aug 3	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15932.16	16023.58	16165.09	17264.34	14651.44	38915.9	85.25

Day's high: 16019.33. Day's low: 15917.03.

TOKYO TRADING ACTIVITY

Volume : 383,080,000

ACTIVE STOCKS Wednesday	Stocks traded	Close price	Day's change
Sakura Bk	11,364,000	325	+8
Np Steel Cp	9,325,000	248	+2
Fuji Bk	7,234,000	487	+32
Okura & Co	6,538,000	90	+6
Np KinGin	6,490,000	695	+27
Kawai Music	5,767,000	404	+86
Bk Tk-Mitsbi	5,285,000	1340	+29
Mitsbi Elct	4,687,000	280	–8
Sumo RelDv	4,597,000	537	–13
LTCB	4,465,000	50	

BIGGEST MOVERS Wednesday	Close price	Day's change	Day's chge %
Ups			
Taito	380	+58	+18
Kawai Music	484	+66	+15.8
Nitto Cons	285	+38	+15.2
Seibu	2420	+220	+10
Downs			
Yakagi Cp	144	–14	–8.9
Omoto Cns	621	–58	–8.5
Nihon Spa	216	–20	–8.5
Nichimo	163	–13	–7.4

FRANCE

	Aug 5	Aug 4	Aug 3	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3976.40	4047.80	4085.03	4388.48	2882.54	4388.48	984.81

Day's high: 3999.26. Day's low: 3930.72.

PARIS TRADING ACTIVITY

Volume : 546,493,100

ACTIVE STOCKS Wednesday	Stocks traded	Close price	Day's change
Axa	1,682,811	779	–26
Alstom	1,371,443	185.8	–3.2
FrTele	1,239,233	383.1	–7.9
EIfAqu	1,125,659	733	–22
Renault	1,089,956	303.5	+3.5
EurDis	1,078,082	10.7	+0.4
Alcatel	1,073,941	1140	–20
RhonPA	1,012,730	310	–9
BNP	946,671	517	–4
Usinor	872,002	79	

BIGGEST MOVERS Wednesday	Close price	Day's change	Day's chge %
Ups			
Sidn R	102.2	+4.6	+4.7
Sidel	418	+18	+4.5
EurDis	10.7	+0.4	+3.8
Downs			
Paribs	280.6	–19.4	–6.5
Dollfus	120	–8	–6.2
Technip	600	–40	–6.1
Ingtell	153.1	–8.9	–5.5
BonmrA	287.6	–16.5	–5.2

GERMANY

	Aug 5	Aug 4	Aug 3	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5632.51	5798.20	5758.77	6171.43	4087.28	6171.43	931.18

Day's high: 5641.28. Day's low: 5559.95.

FRANKFURT TRADING ACTIVITY

Volume : (m)

ACTIVE STOCKS / BIGGEST MOVERS: [illegible]

UK

	Aug 5	Aug 4	Aug 3	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5632.5	5736.1	5808.7	6179.00	5068.80	6179	986.9

Day's high: 5736.1. Day's low: 5571.4

LONDON TRADING ACTIVITY

Volume : 773,189,800

ACTIVE STOCKS / BIGGEST MOVERS: [illegible]

INDEX FUTURES

[illegible]

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Wall St hangover leaves bourses reeling

WORLD OVERVIEW

The hangover from Tuesday's 300-point fall on Wall Street meant that most stock markets started with a bad headache yesterday, *writes Philip Coggan.*

Losses in Asia were more subdued than might have been expected. Tokyo only inched lower and Hong Kong lost a modest (by its standards) 1.5 per cent. Jakarta suffered most, dropping more than 4 per cent.

European markets opened 2-3 per cent down and spent the rest of the day anticipating, and reacting nervously to, the movements on Wall Street. With many traders away on holiday, it is proving hard for Europe to develop its own momentum.

The Dow had a predictably volatile opening, gaining 25, dropping 70 and then rebounding to be 20 ahead again, all within the first half-hour.

There were a few signs that the US investment community was attempting its familiar strategy of "buying on the dips".

Thomas Galvin, chief investment officer of Donaldson Lufkin & Jenrette, said he was lifting the proportion of stocks in his model portfolio from 65 per cent to 75 per cent, at the expense of cash. Abby Joseph Cohen, the Goldman Sachs strategist, said the sell-off was overdone and reiterated her 9,300 end-1998 target for the Dow.

The snap-back was not as immediate as in October 1997 when a 554-point fall in the Dow was followed by an immediate 337-point gain.

And some see a correction in the Dow as overdue, especially given the recent weakness of smaller stocks – the Russell 2000 small-cap index is at its lowest level since August 1997.

But as far as Europe was concerned, the fact that New York had avoided another massive loss was a relief.

Most bourses closed off their lows for the day, with Frankfurt and Paris both down by just less than 2 per cent.

While much of the world was worrying about Wall Street, one of the markets' most persistent worries showed some signs of easing. The Japanese yen, which had flirted with the Y148 to the dollar level, moved back to Y144.

But many investors remain suspicious about the prospects for a Japanese recovery. "People have been too optimistic about the prospects for policy change from the new government," says Andrew Callender, an Invesco GT fund manager. "We are fairly cautious and think it will be difficult to make much of a gain in Japan without a currency hedge. The yen seems likely to weaken and there is a danger that the Nikkei could dip to 14,000 or below."

London market, Page 34

Dow rallies as buyers tip-toe back

AMERICAS

Wall Street opened nervously following Tuesday's severe shakeout with modest buying propelling the Dow Jones Industrial Average back above the 8,500 level, *writes John Labate in New York.*

"Everyone kind of tip-toed into today," said Hugh Johnson, chief investment officer at First Albany. Mr Johnson is among those who consider Tuesday's plunging market *an opportunity to get back* into select US stocks, albeit with care.

"The *big issue out there* is what's going to happen to profits, and the market should stay on the defensive unless Japan does something believable and dramatic," he added.

"With the profits-reporting season for the second quarter winding down, market watchers will pay close attention to every warning and pre-announcement that companies make between now and the end of September," Mr Johnson said.

By early afternoon the Dow was 60.50 higher at 8,547.81 while the Standard & Poor's 500 index was up 8.67 to 1,080.79.

The Nasdaq composite gained 12.44 to 1,798.08. However, the small-cap sector continued to struggle, with the Russell 2000 down by less than a point to 401.03.

Among large company shares, Procter & Gamble rose $3⅞ or 4.6 per cent to $81¼ and Walt Disney $1 to $33⅞.

Investors bid major international names higher, ranging from Coca-Cola, up $2 to $80¾, to Gillette, up $1⅞ to $52¼.

But shares of Allied Signal were hit hard again, a day after the company's hostile bid for *AMP. Allied* was off almost 9 per cent to $36¾.

Shares of Aetna surged more than 9 per cent or $6¼ to $71¼ after the company reported earnings.

As morning stock prices improved, US Treasuries fell, with the benchmark long *bond down* ⅜ *to 106¾, yielding* 5.675 per cent.

But higher bond yields did *not* hold back banking shares. The Philadelphia Stock Exchange's bank index gained 2.1 per cent to 817.89. Chase Manhattan rose $1¾ to $71¼ and BankAmerica climbed $3⅞ to $87⅞.

Networking leader Cisco Systems gained $3⅞ to $96⅞ a day after the company reported earnings slightly above expectations.

TORONTO rallied along with Wall Street in early trading. The banks rapidly reversed Tuesday's heavy losses and there were steady gains across most blue-chip sectors. At noon the 300 composite index was up 18.57 at 6,722.90.

Banks suffered further losses at the opening bell, but swung round in mid-morning. Royal Bank of Canada gained 20 cents to C$79.80 and Bank of Nova Scotia 40 cents at C$32.75. Golds improved with Barrick up 10 cents at C$25.05.

Alcan Aluminium added 20 cents at C$37.10.

São Paulo edges lower

SAO PAULO continued to edge lower but dealers reported calm after the shakeout of the previous session when shares fell 3.3 per cent. Volume was said to be light.

Telebrás improved 0.2 per *cent to 127.50 pesos* and most other blue chips were steady. Petrobrás stayed *weak, however, slipping a* further 2.9 per cent to 230 pesos after shedding 3.3 per cent on Tuesday. At midsession, the Bovespa index was down 35 at 9,824.

MEXICO CITY traded narrowly from the opening bell in dull turnover. "Everybody's watching the Wall Street screens. There is little activity right now," said one broker. The IPC was up 23.28 at 4,095.23 at midsession.

CARACAS moved lower in early trading as investor worries shifted from Wall Street to local earnings *trends.*

The IBC index, which emerged from a bruising session on Tuesday with a decline of 1.7 per cent, was off 15.01 at 4,841.04 at midsession.

Dax floats back from lows

EUROPE

German equities rallied in afternoon trading to close the electronic session in **FRANKFURT** with the Xetra Dax down 103.93 at 5,614.77, against a low for the session *of 5,555.59.*

Software giant SAP continued to mesmerise the sellers, slipping a further DM72 to DM1,153 to extend its decline to 14 per cent in three days' trading. Adidas, weak on *Tuesday following* disappointing results, lost DM7.40 at DM242.60.

Cyclicals featured among the heavier fallers. Degussa shed DM4.40 to DM134.20, *Linde DM55.50 to DM1,120,* MAN DM22.50 to DM607.50 and BASF DM1.88 to *DM77.87.*

Retailer Metro added DM1.95 to DM102.60 after *denying a rumour that it* planned to bid for Booker of the UK. Carmaker Volkswagen was also a firm feature, adding DM3.60 at DM160.80.

PARIS skidded about in the wake of Wall Street's early fluctuations before finally closing with the CAC 40 off 71.48 or 1.8 per cent at 3,976.40.

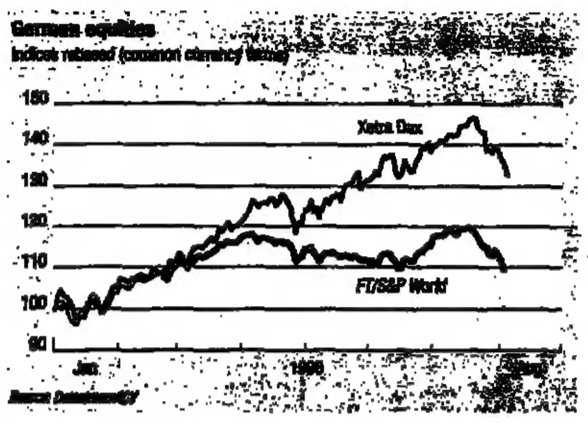
This was 46 points above the day's low and took place in heavy volume.

There were few discernable trends. Lagardère, a strong market at the end of last month on news of an alliance with Aerospatiale, was the heaviest casualty, falling FFr13.50 or 5.2 per cent to FFr247.

Alcatel was among the most active shares. It fell FFr20 to FFr1,140 in turnover of FFr1.2bn. In financials, Société Générale came off FFr53 or 4 per cent at FFr1,273 and Axa-UAP FFr26 at FFr779.

Among lesser caps, Skis Rossignol rose FFr4.60 or 4.7 per cent to FFr102.20 on the news that the rival Salomon brand was to be streamlined, which led some analysts to suggest that capacity could be removed from the market place.

AMSTERDAM moved steeply *lower* in spite of a scaraway performance at



steel leader Hoogovens, which surged almost 7 per *cent following stronger-than-*expected first-half results.

At the close, the AEX *index was off 25.40 or 2.1 per* cent at 1,186.77. Financials led the way down with ING *sliding Fl 5.70 or 3.8 per cent* to Fl 142.80 and Aegon off Fl 6 at Fl 180.50.

ABN Amro gave up Fl 1.20 to Fl 49.80 in 8.7m shares traded. Among industrials, Royal Dutch lost Fl 2.90 to Fl 99.90.

Given the overnight shakeout on Wall Street, it was all fairly predictable. What was not was anticipated was a bounce for Hoogovens which shot up Fl 6 to Fl 92.30 on the back of almost-doubled six-month earnings.

ZURICH lost ground in nervous trading with the SMI index falling 227 or 2.9 per cent to 7,943.2, falling through the technical support of 8,000.

Financials suffered heavy losses. Bank Julius Baer fell SFr180 or 3.3 per cent to SFr5,145. Morgan Stanley Dean Witter downgraded the shares to "neutral" from "outperform". Others also suffered sell-offs, with UBS down SFr31 or 4.8 per cent to SFr620, CS Group losing SFr10.50 to SFr358 and Zurich declining SFr42 to SFr1,105.

Among the biggest losers was SGS, the inspections and testing group, which tumbled SFr209 to SFr2,307. The group warned that the Asian economic crisis and the downturn in oil and mineral markets would hit first-half results.

Although analysts welcomed the company's appointment of a new chief executive, news of the loss of two large contracts in Indonesia and Pakistan depressed *sentiment.*

MADRID fell back with other European bourses and the general index lost 16.13 or 1.8 per cent to 897.59.

Telefónica closed down Pta200 or 2.7 per cent to Pta7,190. The group said its stake purchases in units of Telebrás would dilute its earnings over the next three years.

Pryca, the supermarket chain, rose Pta10 to Pta2,865 after its announcement of a rise in July sales.

The second largest contractor, Dragados y Construcciones, fell Pta200 or over 4 per cent to Pta4,525 on news that it was breaking off its international partnership with Fomento de Construcciones y Contratas, the industry leader.

Banks lost ground on profit-taking. Argentaria lost Pta110 or more than 3 per cent to Pta3,460 and BCH declined Pta45 or 2.4 per cent to Pta1,835.

MILAN bounced off its day's lows but closed down 456 or 1.9 per cent to 23,807. Parmalat, the food and dairy group, fell foul of stock overhang and earnings dilution worries after the company announced a L1,000bn share issue. Foreign investors were said to be heavy sellers. The *shares ended off L296 or 9* per cent at L3,125.

Olivetti, the most active *issue of the day, bucked the* the general downtrend, rising L155 to L3,895. Dealers said the shares had been boosted by positive broker valuations for Olivetti's telecoms operations.

STOCKHOLM was off 2.4 per cent with the general index falling 87.95 to 3,541.87. Ericsson fell SKr6.50 to SKr214.50 while Astra lost SKr3.50 to SKr142.50.

Insurance group Skandia fell SKr8 to SKr130.50 on dull first profits. AssiDoman, the forestry group, fell SKr17 to SKr201 after posting disappointing first-half results.

Written and edited by Jeffrey Brown, Emiko Terazono, Paul Gregan and Peter Hall

Rates and rand hit banks

SOUTH AFRICA

Shares in Johannesburg were dragged lower by a severe shakeout among the banks, *hit by interest rate* and currency worries. The all-share index ended off 2.5 per cent at 6,780.4.

Led lower by the banking sector, the financial index *fell 3.2 per cent* to 11,982.5. Standard Bank dropped 5.4 per cent to R22.90.

Industrials lost 2.9 per cent at 7,882.9 but golds improved, adding 2.3 per cent to 924.8.

EMERGING MARKET FOCUS

Sickly Shanghai looks all at sea

Another week, another historic low. Shanghai's B share market, where international investors can buy mainland Chinese stocks denominated in foreign currency, has been sinking steadily in the last few months to uncharted depths.

Shares have lost more than 40 per cent of their value since the beginning of the year. Some of China's best-known names are trad*ing at 20 per cent of their* listing price. And the market capitalisation of China's B *shares – the ones listed in* Shanghai as well as those on the rival Shenzhen exchange – is a mere $2.5bn.

These days, the six-year-old Shanghai stock market for foreign investors has the distinction of being described by some as an infant bourse and others as a moribund exchange.

Shares rallied yesterday. The B index closed up 9.28 per cent as local bargain-hunters and rumours of government efforts to revive the market briefly raised spirits. The index closed at 31.24, well below its 53.73 at the beginning of the year, but 2.64 up from the record low of the previous day.

Bruce Richardson, head of ABN Amro Asia in Shanghai, said: "The way things *stand we are waiting for the* funeral. The crematorium is ready. But we've seen things go down and stay down for a long time before and then you have a November '96 [when prices soared] and things go crazy. In the B share markets, you never say never."

Traders on the Shanghai market reported yesterday that prices rose on buying by domestic investors who are barred from owning B shares but have ignored the largely unenforced government rules and become the main buyers.

"They believe B share prices have bottomed out ... they look like bargains," said one local trader, identifying several companies trading at a substantial discount to net asset value.

But many analysts warn that the rally may not last long. The Chinese stock market for foreign investors – by contrast with the domestic investor A share market which is large and liquid – has much stacked against it.

Most foreign investors want to get out. Investment strategists are advising cli*ents to take money out of* Asia over continued worries about currency risk and Japan's economy.

Even in the best of times, mainland China represented *just* a fraction of those portfolios because the tiny Shanghai and Shenzhen markets were infuriatingly illiquid. "It can take a month to build up a position in Shanghai and several to unwind that position," says one foreign stockbroker.

Structural changes could reinvigorate the market. There is talk of allowing some B-listed companies to repurchase shares. The B markets might be formally opened to mainland Chinese investors with foreign holdings, broadening the legal pool of buyers and boosting liquidity. And, in the longer term, there remains the alluring prospect of the baby B share market merging with the busier A market.

James Harding

Tokyo regains nerve after fall

ASIA PACIFIC

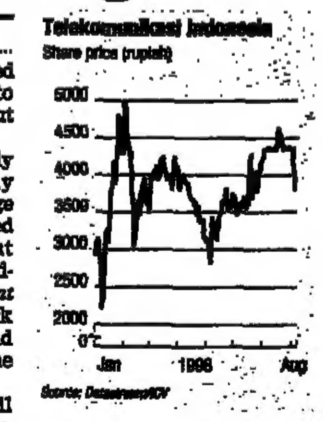
Asian stock markets reacted with a degree of aplomb to the steep overnight shakeout on Wall Street.

TOKYO ended *comfortably* above its low for the day with the Nikkei 225 Average below the 16,000 watershed but a modest 31.42 off at 15,992.16 at the close of trading, *writes Khozem Merchant in Tokyo.* The benchmark traded between 16,019.33 and 15,817.03. Volume was on the thin side.

Initially the Nikkei fell more than 1 per cent as sentiment *took fright* at the news from New York, but bank stocks offered good *support, rallying amid public* pension buying. The banking sector index added 0.96 per cent.

Sakura Bank was the most actively traded issue on the first section, rising Y6 to Y325 on volume of 11.36m. Fuji Bank climbed Y32 to Y497, *while Bank of Tokyo* Mitsubishi jumped Y29 to 1,340.

Government statements that the top level of personal tax would be cut as part of *wide-ranging tax reforms* buoyed banks and market sentiment in general. The mood was *also* encouraged by hopes that Keizo Obuchi, the prime minister, will



announce a package of measures to boost the economy when he gives his keynote speech to parliament tomorrow.

Nippon Mining & Metals, which made its debut on the first section on Tuesday, extended its gains, rising Y27 to Y585. The biggest loser of the day was Yahagi, a former producer of pig iron *that is diversifying into soft*ware production. It closed down 8.86 per cent to Y144.

Overall trading was modest, with 363m first-section shares changing hands. The Topix index of all first-section stocks rose 1.17 to 1,235.78. Losing shares out*stripped gainers 628 to 476.* In Osaka, the OSE index closed off 0.05 at 17,097.50.

HONG KONG saw another big setback for HSBC in the wake of recent disappointing interim results, but the broad market had a relatively steady session. The *Hang Seng index* gave up 114.37 or 1.5 per cent at 7,466.43 after hitting a low for the session of 7,366.44.

HSBC fell HK$6.5 or 3.7 per cent to HK$171.50. China stocks were weak. The red-chip index shed 1.4 per cent and H shares slid 3.5 per cent.

SEOUL dropped more than 3 per cent as overseas investors sold off blue chips and the composite index ended down 10.37 at 322.83.

Overseas investors and local institutions were net sellers, while retail investors were net buyers. Futures-related selling also depressed shares.

Banks were heavily traded with Commercial Bank of Korea down Won40 to Won630, Hanil Bank Won40 to Won630, and Cho Hung Bank Won35 to Won715.

Foreigners sold Korea Electric Power, which fell Won650 or 3.8 per cent to Won16,350, and Samsung Display Devices which retreated Won1,800 or 4.6 per cent to Won37,500.

JAKARTA was pulled down by sharp falls in Telkom and Indosat. The composite index fell 19.57 or 4.2 per cent to 441.78.

The market was the worst performer in the region, which was hit by Wall Street's fall.

Telkom, which accounts for 20 per cent of the market's capitalisation, fell Rp300 or *7.3 per cent to* Rp3,825. The shares were also hit by reports that the government was planning to delay a sell-off of the company's shares due to poor market conditions. Indosat lost Rp725 or more than 5 per cent to Rp13,100.

SYDNEY closed well off its session low, supported by strong golds and a good run for BHP amid talk of restructuring and disposals.

The All Ordinaries index ended off 42.1 or 1.6 per cent *at 2,640.2 after* hitting a low for the day of 2,622.6. BHP added 8 cents at A$13.90 for a three-day rally of 5.8 per cent. News Corp fell 35 cents to A$11.64 and NAB came off 18 cents at A$22.38.

WELLINGTON slid lower in spite of easing money market rates and a good day for local bonds. Competition worries kept sellers going at NZ Telecom, down 15 cents to NZ$8.35 for a two-day decline of almost 4 per cent. The 40 capital index ended off 36.75 or 1.8 per cent at 2,044.28.